

WASHINGTON CITY, UTAH
FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION
with
INDEPENDENT AUDITOR'S REPORT
YEAR ENDED JUNE 30, 2005

WASHINGTON CITY, UTAH

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FINANCIAL SECTION

Wilson & Company

Certified Public Accountants / A Professional Corporation

INDEPENDENT AUDITOR'S REPORT

The Honorable City Council

Washington City, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Washington City, Utah as of and for the year ended June 30, 2005 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Washington City, Utah as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2005, on our consideration of Washington City, Utah's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis, as listed in the financial section of the table of contents and budgetary comparison information on page 57 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Washington City, Utah's basic financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements of Washington City, Utah. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


WILSON & COMPANY
Certified Public Accountants

December 7, 2005
Cedar City, Utah

MANAGEMENT'S DISCUSSION & ANALYSIS

This section of Washington City's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2005. Please read this discussion and analysis in conjunction with the City's financial statements.

PURPOSE OF REPORT

This annual report consists of a series of financial statements, which follow uniform governmental accounting, financial and auditing standards. The Statement of Net Assets on page 15 and the Statement of Activities on pages 16 through 17 provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 18. For governmental activities, these statements show how the City is financed in the short term as well as what remains for future spending. The Statement of Revenues, Expenditures and Charges in Fund Balances reports the City's operations in more detail by providing information about the City's most significant funds. The remaining statement provides information about activities for which the City acts solely as an agent for the benefit of those outside the government.

FINANCIAL HIGHLIGHTS

The City's total net assets at the close of the fiscal year totaled \$62,421,101 which represents an increase of 36% over the prior year. This is primarily due to contribution of infrastructure with the development of subdivisions, road improvements, construction of the Millcreek Trail and a new fire station.

The City's restricted and unrestricted assets increased more than 37% over the prior year. This is due to investing in future system infrastructure, acquisition of a new cemetery site, future road construction projects and future property acquisition for a police station and city office expansion.

Washington City's governmental funds reported a combined ending fund balance of 14,508,822 at June 30, 2005, a \$2,000,363 change from the previous year.

At June 30, 2005, unrestricted fund balance of the general fund was \$7,63,921 or 15% percent of the total general fund expenditures for the year and may be used to meet the City's ongoing obligations.

The City's total long-term debt increased \$6,498,225 with the issuance of an Electric Revenue Bond. It is also worth noting that the City paid off the 1993 and 1994 Special Assessment bonds this year as well as the 1995 Excise Tax Revenue bond.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Washington City's basic financial statements. The basic financial statements are comprised of the government-wide financial statements, fund financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements include a statement of net assets and a statement of activities that provide a City-wide perspective of the City's overall financial status. These statements are prepared using accrual accounting methods similar to those used in preparing the financial statements of private-sector businesses.

Statement of Net Assets- The statement of net assets presents information on all of Washington City's assets and liabilities. The difference between assets and liabilities represents the City's net assets. Increases or decreases in net assets, when viewed over a period of time, may serve as a useful indicator of whether the financial position of the City is improving or deteriorating, respectively.

Statement of Activities- The statement of activities presents information reflecting how Washington City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs irrespective of the timing of the related cash flows. Thus, all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide financial statements distinguish between governmental activities, those principally supported by taxes and intergovernmental revenues, and business-type activities, those that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of Washington City include general government, public safety, streets and highways, parks cemetery and public property, culture and recreation, community and economic development, and interest and fiscal charges. The business-type activities include water, sewer, power, golf course, irrigation and storm drain funds.

The government-wide financial statements can be found on pages 15-17 of this report.

FUND FINANCIAL STATEMENTS

A fund is a group of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. This segregation is also used to ensure and demonstrate compliance with finance-related legal requirements. The City utilizes three types of funds: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds – Governmental funds account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, these statements are prepared using modified accrual accounting methods, which measure cash and other financial assets readily convertible to cash and their balances available for use at year-end. As a result, these statements provide a short-term perspective of the City's general government operations and the basic services provided and may assist in determining the availability of financial resources that could be used in the near future to finance the City's programs.

Reconciliation between the long-term perspective of the government-wide financial statements and the short-term perspective of the fund financial statements is provided on page 19 of this report.

The City has identified two of its governmental funds to be major governmental funds requiring separate reporting. The remaining governmental funds are non-major funds and are included in the combining statements on 58-64 of this report.

Proprietary funds - Proprietary funds account for the same functions and utilize the same accounting methods reported as business-type activities in the government-wide financial statements. Full accrual accounting methods are used and provide both long and short-term financial information. The City uses enterprise funds, one type of proprietary fund, to account for its six business-type activities.

Three of the City's enterprise funds qualify as major funds. The remaining three funds are classified as non-major funds and are included in the combining statements on page 65-67 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes to the financial statements provide additional information essential to understanding the government-wide and fund financial statements.

The notes to the financial statements are on pages 25-56 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As was previously noted, increases or decreases in net assets, when viewed over a period of time, may serve as a useful indicator of whether the financial position of the City is improving or deteriorating, respectively. The City's total net assets, assets in excess of liabilities, totaled \$62,421,101.

WASHINGTON CITY'S NET ASSETS

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u>	
	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005
Current and other assets	\$14,396,229	\$16,690,694	\$10,075,808	\$21,678,876	\$24,472,037	\$38,369,569
Capital assets	<u>25,058,225</u>	<u>28,498,640</u>	<u>28,205,880</u>	<u>34,195,302</u>	<u>53,264,105</u>	<u>62,693,942</u>
Total assets	<u>39,454,454</u>	<u>45,189,334</u>	<u>38,281,688</u>	<u>55,874,178</u>	<u>77,736,142</u>	<u>101,063,512</u>
Long-term debt outstanding	13,632,002	12,503,000	11,851,544	20,503,229	27,312,728	33,006,229
Other liabilities	<u>2,154,197</u>	<u>3,046,285</u>	<u>5,819,965</u>	<u>2,589,897</u>	<u>4,229,262</u>	<u>5,636,182</u>
Total liabilities	<u>15,786,199</u>	<u>15,549,285</u>	<u>17,671,509</u>	<u>23,093,126</u>	<u>31,541,990</u>	<u>38,642,411</u>
Net assets:						
Invested in capital assets, net of related debt	7,252,307	15,435,640	14,525,154	13,533,933	21,777,461	28,969,573
Restricted	15,749,673	8,339,467	5,141,555	17,639,893	20,891,228	25,979,360
Unrestricted	<u>666,276</u>	<u>5,864,942</u>	<u>2,859,188</u>	<u>1,607,226</u>	<u>3,525,464</u>	<u>7,472,168</u>
Total net assets	<u>\$23,668,256</u>	<u>\$29,640,049</u>	<u>\$22,525,897</u>	<u>\$32,781,052</u>	<u>\$46,194,153</u>	<u>\$62,421,101</u>

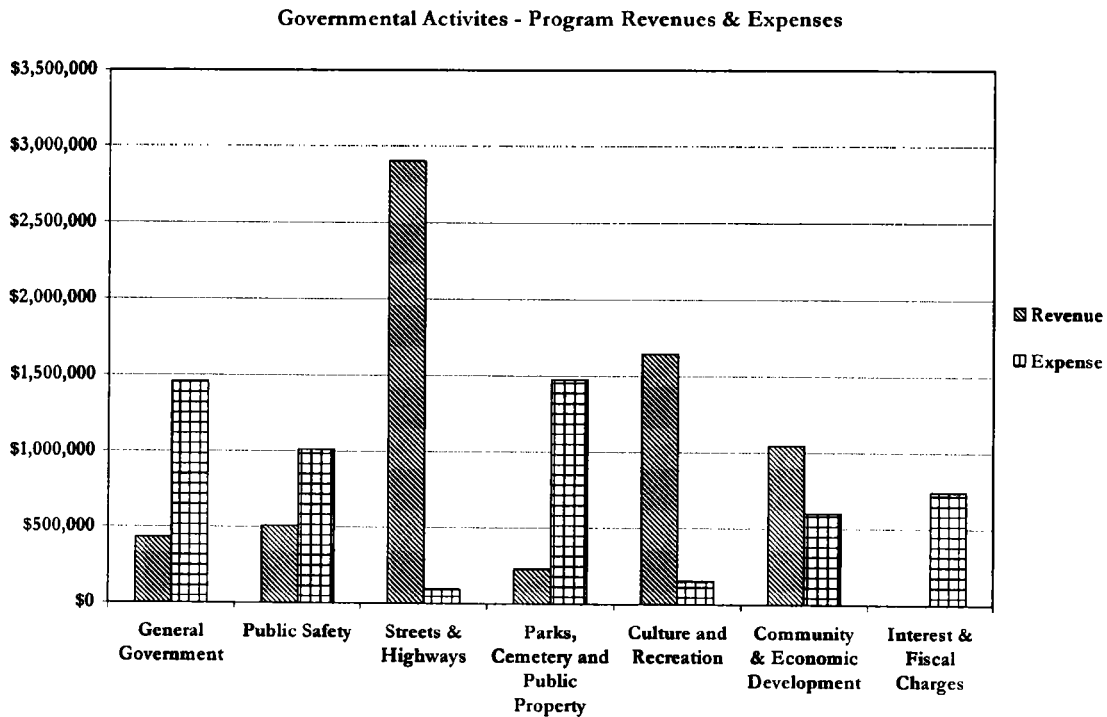
A portion of the City's net assets (42%) represents resources that are subject to external restrictions on how they may be utilized. The remaining balance \$7,472,168 may be used to meet the ongoing obligations to citizens and creditors.

At the end of the current fiscal year the City was able to report positive balances in both categories of net assets for the government as a whole.

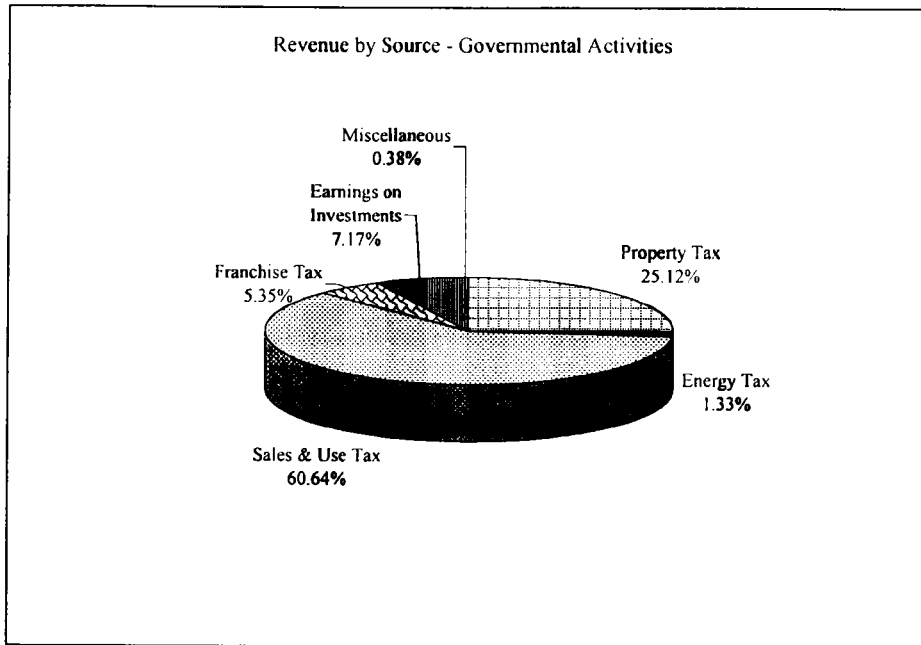
CHANGES IN WASHINGTON CITY'S NET ASSETS

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u>	
	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005
Revenues:						
Program revenues:						
Charges for services	\$ 1,105,158	\$1,883,173	\$10,080,413	\$11,392,920	\$11,185,571	\$13,276,093
Operating grants and contributions	14,709	26,636			14,709	26,636
Capital grants and Contributions	2,724,229	4,847,933	5,976,780	10,114,920	\$ 8,701,009	14,962,853
General revenues:						
Property taxes	1,030,259	1,149,368			1,030,259	1,149,368
Other taxes	2,358,106	3,081,005			2,358,106	3,081,005
Investment income	167,351	328,129	202,923	487,171	370,274	815,300
Other revenues	173,436	17,407			173,436	17,407
Gain (loss) on sale/disposal of assets	<u>(945,374)</u>	<u> </u>	<u>395,203</u>	<u>64,135</u>	<u>(550,171)</u>	<u>64,135</u>
Total revenues	<u>\$ 6,627,874</u>	<u>\$11,333,651</u>	<u>\$16,655,319</u>	<u>\$22,059,146</u>	<u>\$23,283,193</u>	<u>\$33,392,797</u>
Expenses:						
General government	1,245,287	1,460,320			1,245,287	1,460,320
Public Safety	650,058	1,012,512			650,058	1,012,512
Streets and highways	801,827	94,359			801,827	94,359
Parks, cemetery and public property	382,462	1,474,144			382,462	1,474,144
Culture and recreation	144,501	152,510			144,501	152,510
Community and economic Development	382,650	599,620			382,650	599,620
Interest and fiscal charges	944,672	739,336			944,672	739,336
Water			1,492,521	2,322,414	1,492,521	2,322,414
Sewer system			2,235,833	3,086,534	2,235,833	3,086,534
Electric Utility System			5,217,182	4,718,004	5,217,182	4,718,004
Golf Course			1,206,454	1,204,815	1,206,454	1,204,815
Irrigation			13,904	36,731	13,904	36,731
Storm Drain	<u> </u>	<u> </u>	<u>806</u>	<u>270,160</u>	<u>806</u>	<u>270,160</u>
Total expenses	<u>\$ 4,551,458</u>	<u>\$5,532,801</u>	<u>\$10,166,700</u>	<u>\$11,638,657</u>	<u>\$14,718,158</u>	<u>\$17,171,458</u>
Increase in net assets before transfers	2,076,416	5,800,850	5,966,558	10,420,489	8,565,036	16,221,339
Transfers	<u>522,062</u>	<u>170,943</u>	<u>(522,062)</u>	<u>(170,943)</u>	<u> </u>	<u> </u>
Increase in net assets	<u>\$2,598,478</u>	<u>\$5,971,793</u>	<u>\$5,966,558</u>	<u>\$10,249,546</u>	<u>\$ 8,565,036</u>	<u>\$16,221,339</u>

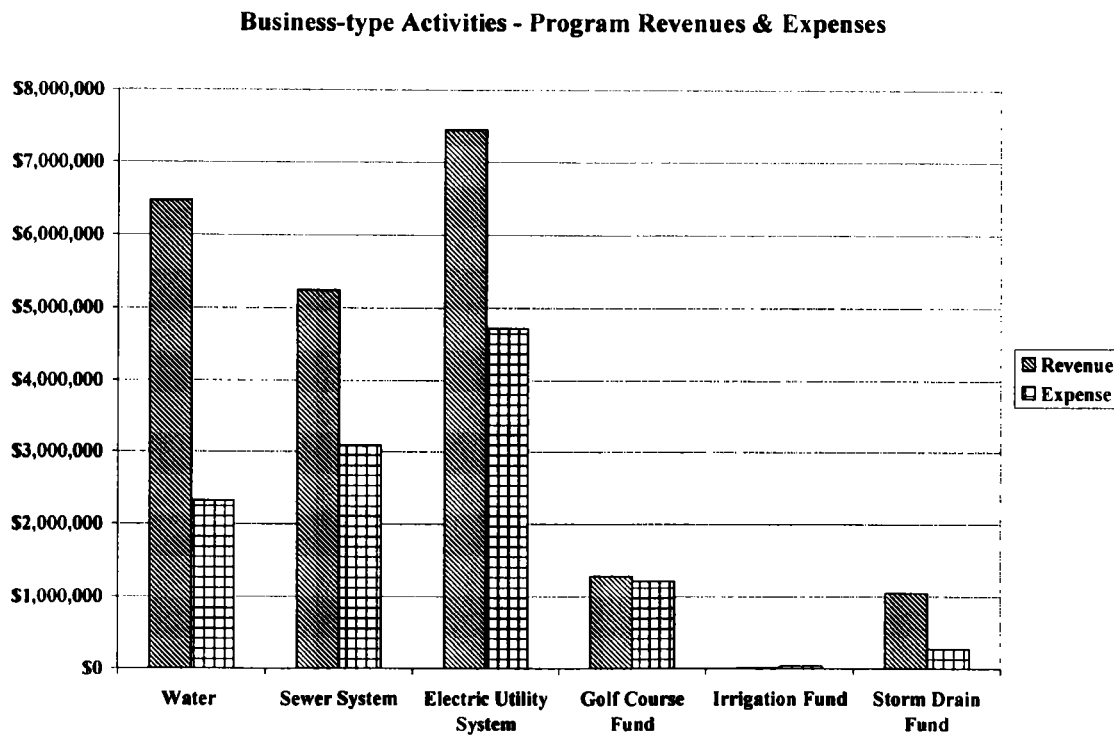
Governmental Activities -The following chart displays the governmental activities expenses compared to the program revenues attributed to the activity. Traditionally, governmental activities are funded by general revenue sources and not charges for direct services.



The following chart displays the major sources of governmental activity revenue. Taxes account for 92% of revenue that funds governmental activities.



Business-type Activities –The following chart displays business-type activities compared to program expenses attributed to the activity. Traditionally business-type activities are self supporting and are generally funded by charges for services. 100% of revenues for business-type activities come from charges for services.



GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

As was previously noted, the City's governmental funds provide a short-term perspective of the City's general government operations and the financial resources available in the near future to finance the City's programs. Differences between available financial resources and the short-term obligations of general government operations are reported as fund balances. Fund balances are designated as either reserved or unreserved. Reserved fund balances indicate amounts of the fund balance set aside for specific purposes or to meet specific requirements.

As of June 30, 2005, the City's governmental funds, which include the general fund, all special revenue funds, debt service funds and capital project funds, report a combined fund balance of \$14,508,822. This combined balance represents an increase of \$2,000,363 over last year's ending fund balances.

The general fund is the main operating fund of the City. All governmental-type activities not accounted for in a special revenue fund, debt service fund or capital project fund are accounted for in the general fund. Accounting for activities in funds other than the general fund may be required by state regulations or local ordinances; or, the City may simply desire to isolate the revenues and expenditures associated with a particular activity for matching purposes.

The general fund balance decreased by \$268,906 to \$1,199,994 during the fiscal year ending June 30, 2005. The \$1,199,994 fund balance represents approximately 16 percent of budgeted revenues for the fiscal year ending June 30, 2006. State law requires municipalities maintain a fund balance between 5 and 18 percent of the subsequent year's budgeted revenue.

Taxes are the largest source of revenues to the general fund representing approximately 63 percent of general fund revenues. Sales tax revenues account for approximately 69 percent of all of the tax revenues generated in the general fund. Property taxes generated about 25 percent of the tax revenues.

PROPRIETARY FUNDS FINANCIAL ANALYSIS

Proprietary funds account for the same functions and utilize the same accounting methods reported as business-type activities in the government-wide financial statements. Full accrual accounting methods are used and provide both long and short-term financial information. The City uses enterprise funds, one type of proprietary fund, to account for its six business-type activities. The Major Proprietary Funds are comprised of the Water fund, Sewer fund and Electric fund. The three funds that make up the Non-major Proprietary Funds are the Irrigation fund, Storm Drain fund and Golf Course fund.

Water Fund

As of June 30, 2005, the City's Water fund, had a total of \$13,644,233 in net assets. This represents an increase of \$4,016,464 over last year's ending net assets.

Sewer Fund

As of June 30, 2005, the City's Sewer fund, had a total of \$7,339,666 in net assets. This represents an increase of \$2,099,781 over last year's ending net assets.

Electric Fund

As of June 30, 2005, the City's Sewer fund, had a total of \$9,779,952 in net assets. This represents an increase of \$2,681,266 over last year's ending net assets.

Non-major Proprietary Funds

As of June 30, 2005, the City's non-major proprietary funds, which include the Irrigation fund, Storm Drain fund and Golf Course fund, report combined net assets of \$2,017,200. This combined balance represents an increase of \$1,457,644 over last year's ending net asset totals.

GENERAL FUND BUDGETARY HIGHLIGHTS

The fiscal year 2005 originally adopted budget for the general fund totaled \$5,721,401. The City Council authorized a budget opening in November 2004 to account for the creation of the information technology department in the general fund resulting in a total budget adjustment of increased expenditures by \$8,300. During the November budget opening the Electric fund also received an increase in budget by \$8,000 to account for additional connect fee expenses and office expenses. In June 2005 the City Council amended the budget again. Increases to the adopted budget for general fund expenditures totaled \$3,118,084. The largest increase of \$2,494,563 accounted for transfers to capital projects. These transfers were necessary to account for prior year surplus that had not yet been allocated to a capital project and were necessary to bring Washington City into compliance with State law regarding fund balance limitations. This surplus helped fund much needed capital improvements such as the Washington Parkway and the Pine View Park currently under construction. It will also help fund future acquisition of a new cemetery site, future road construction projects and future property acquisition for a police station and city office expansion. An additional \$429,328 was an appropriated increase in fund balance and may be used to meet the City's ongoing obligations including the organization of the City's new police department. Of the remaining \$194,193 the City Council increased expenditures to account for grant awards, costs incurred as a result of the Virgin River flood that exceeded \$95,000 and several increases in appropriations to prevent budget overruns.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2005, the City had invested \$56,795,389 net of accumulated depreciation, in capital assets for its governmental and business-type activities.

WASHINGTON CITY'S CAPITAL ASSETS
(net of depreciation)

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land and water rights	\$ 1,200,767	\$ 1,192,459	\$ 2,393,226
Buildings & Structures	5,431,053	323,145	5,754,198
Improvements		29,243,103	29,243,103
Infrastructure	16,885,395		16,885,395
 Machinery & equipment	 265,283	 545,756	 811,039
Automobiles & trucks	1,070,596	637,832	1,708,428
Construction in progress	3,645,546	2,253,007	5,898,553
Total	<u>\$28,498,640</u>	<u>\$34,195,302</u>	<u>\$62,693,942</u>

Capital asset acquisitions and projects costing \$50,000 or more during the current fiscal year included:

- \$788,520 in new street infrastructure by private development of subdivisions.
- \$1,134,779 for the construction of infrastructure in the Power department; \$440,278.87 was funded by private development of subdivisions and \$694,500 funded by department expenditures.
- \$884,768 for the construction of infrastructure in the Sewer department; \$684,767.67 was funded by private development of subdivisions and \$200,000 funded by department expenditures.
- \$649,928 for the construction of infrastructure in the Storm Drain department funded by private development of subdivisions.
- \$8,092,660.90 for the construction of infrastructure in the Water department; \$740,560 funded by private development of subdivisions and 7,352,101 funded by water revenue bonds and department expenditures. The 7,352,101 included completed improvements from the 2003 water project, the 2000 water project and the 2002 water project.

Additional information regarding the City's capital assets can be found in the footnotes to the financial statements.

Long-term debt

At June 30, 2005, the City had total debt outstanding of \$33,777,216. Of this amount, \$6,605,000 is considered general obligation debt related to the Coral Canyon Special Service District, which is secured by the full faith and credit of the City. Capital Lease obligations totaled \$187,870. The remaining debt of \$26,984,346 is secured by future cash flows from specific revenue sources.

WASHINGTON CITY'S OUTSTANDING DEBT
2005

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
General obligation bonds	\$ 6,605,000	
Sales tax revenue bonds	4,986,000	
Municipal Building Authority:		
Lease revenue bonds	1,472,000	
Revenue bonds		\$20,526,346
Capital leases		187,870
Total	<u>\$13,063,000</u>	<u>\$20,714,216</u>

During the fiscal year, the City issued the following bonds totaling \$7,845,000:

- \$7,845,000 Electric Revenue Bond

It is also worth noting that the City paid off the 1993 and 1994 Special Assessment bonds this year as well as the 1995 Excise Tax Revenue bond. State statute limits the amount of debt a city may issue to four percent of the fair market value of the taxable property within the city's jurisdiction. An additional eight percent of indebtedness may be issued for water, sewer or electricity when such public works are owned and controlled by the city. The current limitation for the City is approximately \$67,820,232 comprised of \$22,606,744 for the four percent and \$45,213,488 for the additional eight percent. In any case, the City's outstanding debt is significantly below the statutory debt limits.

Additional information on the outstanding debt of the City is located in the footnotes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Washington City is the second largest city, in Washington County and has experienced an estimated residential growth rate of 17.8 percent during the fiscal year ending June 30, 2005. This city has experience an average residential growth rate of 9.07% over the past 5 years and with the amount of available land for residential and commercial development and with improvements to the city infrastructure, Washington City expects to maintain this level of growth over the next few years.

The final revenues of the 2005 general fund budget reflect an increase of 29 percent over the final fiscal year 2004 general fund revenues. The budgeted revenues of the 2006 general fund budget reflect an increase of 18 percent over the final fiscal year 2005 general fund revenues.

The table below gives a good illustration of the growth in residential and commercial culinary water connections from August 1995 to August 2005.

MONTH	RESIDENTIAL			COMMERCIAL		
	TOTAL NO. CONNECTIONS	ANNUAL GROWTH RATE		TOTAL NO. CONNECTIONS	ANNUAL GROWTH RATE	
Aug-95	2549	1994-1995	3.7%	70	1994-1995	5.5%
Aug-96	2761	1995-1996	8.3%	84	1995-1996	20.5%
Aug-97	2931	1996-1997	6.2%	99	1996-1997	17.8%
Aug-98	3064	1997-1998	4.5%	101	1997-1998	2.0%
Aug-99	3158	1998-1999	3.1%	105	1998-1999	3.9%
Aug-00	3391	1999-2000	7.4%	130	1999-2000	23.8%
Jul-01	3616	2000-2001	6.6%	136	2000-2001	4.6%
Aug-02	4165	2001-2002	15.2%	146	2001-2002	7.4%
Aug-03	4553	2002-2003	9.3%	202	2002-2003	38.3%
Aug-04	5356	2003-2004	17.6%	217	2003-2004	7.4%
Aug-05	6308	2004-2005	17.8%	221	2004-2005	1.9%

REQUESTS FOR FINANCIAL INFORMATION

This financial report is designed to provide users with a general overview of the City's finances and demonstrate accountability for the sources and uses of City funding. Questions concerning information contained in this report or requests for additional financial information should be addressed to the Budget Officer, Washington City, 111 North 100 East, Washington, Utah, 84780.

BASIC FINANCIAL STATEMENTS

WASHINGTON CITY
Statement of Net Assets
June 30, 2005

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Assets:			
Cash & cash equivalents	\$ 15,474,614	\$ 20,043,005	\$ 35,517,619
Special assessments receivable	10,774		10,774
Accounts receivable	298,487	1,228,059	1,526,546
Pre-paid expenses	-	185,596	185,596
Property tax receivable	906,819		906,819
Deferred charge		222,216	222,216
Construction in progress	3,645,546	2,253,007	5,898,553
Capital assets, net of accumulated depreciation	24,853,094	31,942,295	56,795,389
Total assets	<u>45,189,334</u>	<u>55,874,178</u>	<u>101,063,512</u>
Liabilities and Net Assets			
Liabilities :			
Cash with negative balances	77,938	1,689,121	1,767,058
Accounts payable	1,066,938	-	1,066,938
Payroll taxes payable	14,960		14,960
Sales tax payable		25,065	25,065
Wages payable	104,082		104,082
Compensated absences payable	104,353	125,776	230,129
Deposits payable		145,324	145,324
Accrued interest payable	200,059	180,287	380,346
Other payables	363		363
Capital lease obligations payable - current	-	55,959	55,959
Capital lease obligations payable - long term	-	131,911	131,911
Deferred revenue	10,774	37,579	48,353
Deferred revenue - property taxes	906,819		906,819
Bond premium		228,605	228,605
Bonds payable (net of discount)			
Portion due within one year	440,000	1,189,840	1,629,840
Portion due after one year	12,623,000	19,283,660	31,906,660
Total liabilities	<u>15,549,285</u>	<u>23,093,126</u>	<u>38,642,411</u>
Net Assets:			
Invested in capital assets, net of related debt	15,435,640	13,533,933	28,969,573
Restricted for:			
Debt service	4,518,983	8,198,079	12,717,062
Other purposes	3,820,484	9,441,814	13,262,298
Unrestricted	5,864,942	1,607,226	7,472,168
Total net assets	<u>\$ 29,640,049</u>	<u>\$ 32,781,052</u>	<u>\$ 62,421,101</u>

The notes to the financial statements are an integral part of this statement.

WASHINGTON CITY
Statement of Activities
Year Ended June 30, 2005

Functions	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government	\$ 1,460,320	\$ 430,322	\$ -	\$ -	\$ (1,029,998)
Public safety	1,012,512	278,477	26,636	201,945	(505,454)
Streets & highways	94,359			2,903,381	2,809,022
Parks, cemetery, and public property	1,474,144	30,673		197,863	(1,245,608)
Culture & recreation	152,510	98,020		1,544,744	1,490,254
Community & economic development	599,620	1,045,681			446,061
Interest and fiscal charges	739,336				(739,336)
Total governmental activities	5,532,801	1,883,173	26,636	4,847,933	1,224,941
Business-type activities:					
Water	2,316,804	2,244,644		4,230,973	4,158,814
Sewer system	3,086,534	2,128,418		3,115,227	2,157,111
Electric utility system	4,718,004	5,517,963		1,932,394	2,732,353
Golf course fund	1,204,815	1,277,355		-	72,540
Irrigation fund	36,731	15,891		-	(20,840)
Storm drain fund	270,160	208,649		836,325	774,815
Total business-type activities	11,633,047	11,392,920	-	10,114,920	9,874,793
Total government	\$ 17,165,848	\$ 13,276,093	\$ 26,636	\$ 14,962,853	\$ 11,099,734

(Continued on page 17)

WASHINGTON CITY
Statement of Activities
Year Ended June 30, 2005

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Changes in net assets			
Net (expense) revenue from previous page	\$ 1,224,941	\$ 9,874,793	\$ 11,099,734
General revenues:			
Taxes:			
Property taxes, levied for general purposes	1,149,368		1,149,368
General sales and use taxes	2,774,913		2,774,913
Energy sales tax	61,080		61,080
Franchise tax	245,012		245,012
Earnings on investments	328,129	487,171	815,300
Miscellaneous	17,407		17,407
Gain (loss) on sale/disposal of assets		64,135	64,135
Operating transfers	170,943	(170,943)	-
Total general revenues and transfers	<u>4,746,852</u>	<u>380,363</u>	<u>5,127,214</u>
Increase in net assets	5,971,793	10,255,155	16,226,948
Net assets - beginning	23,668,256	22,525,896	46,194,153
Net assets - ending	<u>\$ 29,640,049</u>	<u>\$ 32,781,052</u>	<u>\$ 62,421,101</u>

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

WASHINGTON CITY
Balance Sheet
Governmental Funds
June 30, 2005

	General	Mile Post - 13 -	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash & cash equivalents	\$ 2,281,339	\$ 1,896,283	\$ 11,296,992	\$ 15,474,614
Special assessments receivable			10,774	10,774
Other receivables	104,997		193,490	298,487
Total assets	<u>\$ 2,386,337</u>	<u>\$ 1,896,283</u>	<u>\$ 11,501,256</u>	<u>\$ 15,783,876</u>
Liabilities:				
Cash with negative balances	\$ -	\$ -	\$ 77,938	\$ 77,938
Accounts payable	1,066,938			1,066,938
Payroll taxes payable	14,960			14,960
Wages payable	104,082			104,082
Other payables	363			363
Deferred revenue			10,774	10,774
Total liabilities	<u>1,186,342</u>	<u>-</u>	<u>88,711</u>	<u>1,275,054</u>
Fund balances:				
Reserved	436,073	1,896,283	11,412,545	13,744,901
Unreserved, undesignated	763,921	-		763,921
Total fund balances	<u>1,199,994</u>	<u>1,896,283</u>	<u>11,412,545</u>	<u>14,508,822</u>
Total liabilities and fund balances	<u>\$ 2,386,337</u>	<u>\$ 1,896,283</u>	<u>\$ 11,501,256</u>	<u>\$ 15,783,876</u>

The notes to the financial statements are an integral part of this statement.

WASHINGTON CITY
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2005

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balance - governmental funds	\$ 14,508,822
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$28,216,581 and the accumulated depreciation is \$3,363,486.	24,853,095
Construction in progress of long-term assets	3,645,546
Long-term Obligations	(13,367,414)
Total net assets - governmental activities	<u>\$ 29,640,049</u>

The notes to the financial statements are an integral part of this statement.

WASHINGTON CITY
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2005

	General	Mile Post - 13 -	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Property taxes, levied for general purposes	\$ 982,294	\$ -	\$ 167,075	\$ 1,149,368
General sales & use	2,774,913			2,774,913
Energy sales tax	61,080			61,080
Franchise tax	245,012			245,012
Earnings on investments	76,809	95,348	155,973	328,129
Licenses and permits	1,175,751			1,175,751
Intergovernmental revenues	459,729			459,729
Charges for services	437,079			437,079
Fines and forfeitures	262,262			262,262
Miscellaneous	21,774	699,125	2,930,909	3,651,808
Total revenues	<u>6,496,702</u>	<u>794,473</u>	<u>3,253,956</u>	<u>10,545,130</u>
EXPENDITURES:				
General government	1,404,717			1,404,717
Public safety	1,045,330			1,045,330
Streets & highways	902,472			902,472
Parks, cemetery, and public property	572,946			572,946
Culture & recreation	144,142			144,142
Community & economic development	613,682			613,682
Capital outlay		2,081,108	684,288	2,765,396
Debt service:				
Principal retirements	235,000		325,000	560,000
Interest and fiscal charges	224,411		482,615	707,025
Total expenditures	<u>5,142,700</u>	<u>2,081,108</u>	<u>1,491,903</u>	<u>8,715,710</u>
Excess of revenues over (under) expenditures	<u>1,354,002</u>	<u>(1,286,636)</u>	<u>1,762,054</u>	<u>1,829,420</u>
OTHER FINANCING SOURCES (USES):				
Debt proceeds				-
Operating transfers in	1,578,076		4,672,708	6,250,783
Operating transfers out	(3,200,984)	(812,053)	(2,066,804)	(6,079,840)
Sale of fixed assets				
Total other financing sources (uses)	<u>(1,622,908)</u>	<u>(812,053)</u>	<u>2,605,904</u>	<u>170,943</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(268,906)</u>	<u>(2,098,689)</u>	<u>4,367,958</u>	<u>2,000,363</u>
FUND BALANCES JULY 1	1,468,900	3,994,971	7,044,587	12,508,458
FUND BALANCES JUNE 30	<u>\$ 1,199,994</u>	<u>\$ 1,896,283</u>	<u>\$ 11,412,545</u>	<u>\$ 14,508,822</u>

The notes to the financial statements are an integral part of this statement.

WASHINGTON CITY
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Government Funds to the Statement of Activities
Year Ended June 30, 2005

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances-total governmental funds	\$ 2,000,363
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$2,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlays	3,074,794	
Depreciation expense	<u>(422,899)</u>	
		2,651,895

The governmental funds report bond proceeds as an other financing source, while repayment of bond principal is reported as an expenditure. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

Bond proceeds	-	
Repayment of bond principal	560,000	
Accrued Interest expense (net)	<u>(32,311)</u>	
		527,689

Long-term capital lease payments are recorded as expenditures as paid	9,002
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Net increase in compensated absences payable	(5,677)
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Contributions	788,521
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Loss on assets sold/disposed	-
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Change in net assets of governmental activities	<u>\$ 5,971,793</u>
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WASHINGTON CITY
Statement of Net Assets
Major Proprietary Funds
June 30, 2005

	Water Utility Fund	Sewer Collection Fund	Electric Utility Fund	Non-major Proprietary Funds	Total
Assets					
Current assets:					
Cash & cash equivalents	\$ 4,426,402	\$ 4,480,813	\$ 10,015,737	\$ 1,120,053	\$ 20,043,005
Accounts receivable (net of allowance)	254,285	237,428	720,719	15,626	1,228,059
Receivable from other funds		140,000		-	140,000
Pre-paid expenses			185,596		185,596
Total current assets	4,680,688	4,858,241	10,922,052	1,135,678	21,596,659
Long-term assets:					
Deferred charge				222,216	222,216
Construction in progress	225,379	32,394	1,524,341	470,894	2,253,007
Capital assets, net of accumulated depreciation	17,010,713	5,377,646	5,731,277	3,822,659	31,942,295
Total long-term assets	17,236,092	5,410,039	7,255,618	4,515,769	34,417,518
Total assets	21,916,780	10,268,281	18,177,670	5,651,447	56,014,178
Liabilities and Net Assets					
Liabilities:					
Current liabilities:					
Negative cash balance	-	-	-	1,689,121	1,689,121
Accounts payable				-	-
Sales tax payable			19,401	5,663	25,065
Accrued interest	17,843	23,008	110,281	29,155	180,287
Payable to other funds				140,000	140,000
Deposits payable	22,455		122,869		145,324
Compensated absences payable	26,903	16,862	33,984	48,027	125,776
Deferred revenue			37,579	-	37,579
Capital leases payable within one year		36,185		19,774	55,959
Bonds payable within one year	393,840	126,000	275,000	395,000	1,189,840
Total current liabilities	461,041	202,055	599,113	2,326,741	3,588,950
Non-current liabilities					
Bond premium			228,605		228,605
Capital leases payable within one year		91,559		40,351	131,911
Bonds payable after one year	7,811,506	2,635,000	7,570,000	1,267,154	19,283,660
Total non-current liabilities	7,811,506	2,726,559	7,798,605	1,307,506	19,644,175
Total liabilities	8,272,546	2,928,615	8,397,718	3,634,247	23,233,126
Net assets:					
Invested in capital assets, net of related debt	9,030,747	2,521,295	(589,382)	2,571,273	13,533,933
Restricted for:					
Debt service	474,247	48,932	6,809,273	865,627	8,198,079
Other purposes	4,225,899	3,103,982	2,111,933	-	9,441,814
Unrestricted	(86,659)	1,665,457	1,448,128	(1,419,700)	1,607,226
Total net assets	\$ 13,644,233	\$ 7,339,666	\$ 9,779,952	\$ 2,017,200	\$ 32,781,052

The notes to the financial statements are an integral part of this statement.

WASHINGTON CITY
Statement of Revenues, Expenses and Changes in Net Assets
Major Proprietary Funds
Year Ended June 30, 2005

	Water Utility Fund	Sewer Collection Fund	Electric Utility Fund	Non-major Proprietary Funds	Total
Operating revenues:					
Charges for services	\$ 2,230,496	\$ 1,639,973	\$ 5,226,171	\$ 1,424,364	\$ 10,521,004
Solid waste collection		487,801			487,801
Miscellaneous	14,148	644	291,792	77,531	384,116
Total operating revenues	2,244,644	2,128,418	5,517,963	1,501,895	11,392,920
Operating expenses:					
Salaries	360,332	202,329	409,382	487,143	1,459,186
Employees benefits	171,202	95,842	170,516	91,471	529,031
Utilities	262,079	8,181	16,959	51,321	338,539
Professional services	115,465	66,873	8,647	304,124	495,109
Repairs and maintenance	550,120	32,178	46,839	5,783	634,921
Outfall line		455,218		85,848	541,066
Regional sewer plant		1,909,570			1,909,570
Water purchased	207,493				207,493
Power purchased			3,280,095		3,280,095
Transmission expense			257,363		257,363
Lease expense					
Insurance				23,866	23,866
Miscellaneous	7,603	4,320	35,461	164,043	211,428
Supplies	37,394	40,674	30,788	5	108,862
Bad debt expense	477	661	6,088		7,226
Depreciation	348,813	202,287	210,568	138,863	900,533
Total operating expenses	2,060,978	3,018,134	4,472,708	1,352,468	10,904,288
Operating income (loss)	183,666	(889,716)	1,045,255	149,427	488,633
Nonoperating income:					
Interest earnings	112,556	90,242	247,632	36,741	487,171
Impact fees	3,268,564	2,281,385	1,093,377	-	6,643,325
Connection Fees	221,849	149,075	398,739		769,663
Contributions	740,560	684,768	440,279	836,325	2,701,931
Gain (Loss) on sale of assets	94	57,429	6,281	331	64,135
Interest & fiscal charges	(255,826)	(68,400)	(245,296)	(159,237)	(728,760)
Total nonoperating income	4,087,797	3,194,498	1,941,011	714,160	9,937,466
Net income (loss) before transfers	4,271,464	2,304,781	2,986,266	863,587	10,426,098
Transfer out	(255,000)	(205,000)	(305,000)		(765,000)
Transfer in				594,057	594,057
Change in net assets	4,016,464	2,099,781	2,681,266	1,457,644	10,255,155
Net assets - beginning	9,627,770	5,239,885	7,098,686	559,556	22,525,896
Net assets - ending	<u>\$ 13,644,233</u>	<u>\$ 7,339,666</u>	<u>\$ 9,779,952</u>	<u>\$ 2,017,200</u>	<u>\$ 32,781,052</u>

The notes to the financial statements are an integral part of this statement.

WASHINGTON CITY
Statement of Cash Flows
Major Proprietary Funds
Year Ended June 30, 2005

	Water Utility Fund	Sewer Collection Fund	Electric Utility Fund	Non-major Proprietary Funds	Total
Cash flows from operating activities:					
Cash received from customers	\$ 2,251,297	\$ 2,088,325	\$ 5,316,045	\$ 1,485,457	\$ 11,141,124
Cash payments to suppliers for goods and services	(1,180,631)	(2,517,675)	(3,682,240)	(634,648)	(8,015,194)
Cash payments to employees for services	(522,976)	(293,203)	(572,877)	(587,961)	(1,977,017)
Net cash provided (used) by operating activities	<u>547,690</u>	<u>(722,553)</u>	<u>1,060,928</u>	<u>262,848</u>	<u>1,148,913</u>
Cash flows from noncapital financing activities:					
Operating transfers (to) from other funds	(255,000)	(205,000)	(305,000)	594,057	(170,943)
Net cash (used) by noncapital financing activities	<u>(255,000)</u>	<u>(205,000)</u>	<u>(305,000)</u>	<u>594,057</u>	<u>(170,943)</u>
Cash flows from capital and related financing activities:					
Cash received from impact and connection fees	3,490,413	2,430,460	1,492,116	-	7,412,989
Other receipts (payments)	740,655	742,195	446,560	836,657	2,766,067
Acquisition of capital assets	(2,021,873)	(969,197)	(2,713,433)	(1,185,801)	(6,890,304)
Interest paid on capital debt	(256,303)	(69,425)	(135,015)	(110,058)	(570,801)
Amounts to other funds	-	10,000	-	(10,000)	-
Proceeds from long-term obligations	-	-	8,073,605	-	8,073,605
Principal paid on capital lease obligations	-	(38,821)	-	(38,761)	(77,582)
Principal paid on capital debt	(291,711)	(123,000)	-	(372,065)	(786,776)
Net cash (used) by capital and related activities	<u>1,661,181</u>	<u>1,982,212</u>	<u>7,163,833</u>	<u>(880,028)</u>	<u>9,927,198</u>
Cash flows from investing activities					
Interest received	112,556	90,242	247,632	36,741	487,171
Net cash (used) by investing activities	<u>112,556</u>	<u>90,242</u>	<u>247,632</u>	<u>36,741</u>	<u>487,171</u>
Net increase in cash and cash equivalents	<u>2,066,427</u>	<u>1,144,901</u>	<u>8,167,393</u>	<u>13,618</u>	<u>11,392,339</u>
Cash and Cash Equivalents - Beginning	<u>2,359,975</u>	<u>3,335,912</u>	<u>1,848,344</u>	<u>(582,686)</u>	<u>6,961,545</u>
Cash and Cash Equivalents - Ending	<u>\$ 4,426,402</u>	<u>\$ 4,480,813</u>	<u>\$ 10,015,737</u>	<u>\$ (569,068)</u>	<u>\$ 18,353,884</u>
 Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 183,666	\$ (889,716)	\$ 1,045,255	\$ 149,427	\$ 488,632
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation expense	348,813	202,287	210,568	138,863	900,533
Increase decrease accounts receivable	3,553	(40,092)	(170,477)	(16,440)	(223,456)
Increase decrease in deferred revenue	(850)	-	(54,524)	344	(55,030)
Increase decrease in accounts payable	-	-	-	-	-
Increase decrease in deposits payable	3,949	-	23,084	-	27,033
Increase decrease in compensated absences	8,558	4,968	7,021	(9,347)	11,200
Total adjustments	<u>364,023</u>	<u>167,163</u>	<u>15,672</u>	<u>113,420</u>	<u>660,281</u>
Net cash provided (used) by operating activities	<u>\$ 547,690</u>	<u>\$ (722,553)</u>	<u>\$ 1,060,928</u>	<u>\$ 262,848</u>	<u>\$ 1,148,913</u>

The notes to the financial statements are an integral part of this statement.

WASHINGTON CITY, UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Washington City, Utah have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the City are described below.

Reporting Entity - As required by GAAP, these financial statements present the City and its component units, The Coral Canyon Special Service District and the Municipal Building Authority of Washington City, Washington County, Utah, for which the City is considered to be financially accountable. The City is not a component unit of any other primary government. A blended component unit, although a legally separate entity, is, in substance, part of the City's operations.

Blended Component Units:

The Coral Canyon Special Service District was created by Resolution Number 2000-14 on June 14, 2000. The District was created for the purpose of providing water, sewer, drainage, flood control, health care, transportation, recreation, fire protection, street lighting, and snow removal services within the boundaries of the District through the construction, purchase, gift, condemnation or any combination thereof of the facilities or systems necessary to provide said services.

Further information concerning the District is presented in footnote 17 to the financial statements.

Municipal Building Authority of Washington City, Washington County, Utah

The Municipal Building Authority of Washington City, Washington County, Utah (the Authority) was formally recognized by the State of Utah as an incorporated entity on October 20, 1995. The Authority was formed for the purpose of accomplishing the public purposes for which Washington City exists by acquiring, improving, or extending one or more projects and financing the cost of such projects on behalf of Washington City. The Authority is governed by a board of trustees comprised of the elected officials of Washington City. Transactions of the Authority are blended into the audit report issued by Washington City. No separate audit report is issued.

There are no discretely presented component units.

WASHINGTON CITY, UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City and its blended component unit. Interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those which are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The City applies expenses for restricted resources first when both restricted and unrestricted net assets are available.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt of the City are reported as a reduction of the related liability, rather than an expenditure in the government-wide financial statements.

WASHINGTON CITY, UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt-service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Sales taxes, franchise taxes, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenues are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

- General Fund
- Mile Post 13 Capital Project Fund

The General Fund is the government's primary operating fund. It accounts for all financial resources for the general government, except for those required to be accounted for in another fund.

The Mile post 13 Capital Project Fund accounts for resources accumulated to construct the Washington Parkway road.

The City reports the following major proprietary funds:

- Water Utility Fund
- Sewer Collection Fund
- Electric Utility Fund

The Water Utility Fund accounts for the activities of the City's water production, treatment, and distribution operations.

The Sewer Collection Fund accounts for the operation and maintenance of the City's sewer collection system.

WASHINGTON CITY, UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The Electric Utility Fund accounts for the operation and maintenance of the City owned electric system.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of all enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Fixed assets and long-term liabilities

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$2,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

WASHINGTON CITY, UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Depreciation of all exhaustible fixed assets used is charged as an expense against operations. Accumulated depreciation is reported on the financial statements. Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Water, sewer and electric system improvements	40-50 years
Buildings	20-30 years
Machinery and Equipment	5-10 years
Roads and infrastructure	15 years
Improvements other than buildings	20 years

Property Tax

Washington County assesses all taxable property other than centrally-assessed property, which is assessed through the state, by May 22 of each year. The City should adopt a final tax rate prior to June 22, which is then submitted to the state for approval. Property taxes are due on November 30 of each year. Delinquent taxes are subject to a penalty of 2% or \$10.00, whichever is greater. After January 15 of the following year, delinquent taxes and penalty bear interest of 6% above the federal discount rate from January 1 until paid.

Property taxes attach as an enforceable lien on property as they become delinquent. All unpaid taxes levied during the year become delinquent December 1 of the current year.

Property tax revenues are recognized when they become measurable and available. Amounts available include those property tax receivables expected to be collected within sixty days after year end.

Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual budgets are adopted for governmental and proprietary fund types. Encumbrance accounting is not employed by the City in its governmental funds, therefore, all annual appropriations lapse at fiscal year end. Project-length financial plans are adopted for all capital project funds.

The City can make adjustments to the adopted budget through public hearings. During the fiscal year, the City made budget adjustments through public hearings the effects of which were material and are reflected in management's discussion and analysis.

WASHINGTON CITY, UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capitalized Interest

The City capitalizes interest costs and interest earned as part of the cost of constructing various buildings and water and sewer projects when material. Interest is only capitalized in proprietary activities.

Statement of Cash Flows

For the purpose of the Statement of Cash Flows, the business-type activities consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Bond Issue Costs

If material, bond issuance costs are deferred and amortized over the life of the bonds using the straight line method. If material, issuance costs are reported as deferred charges.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Compensated Balances

City employees accumulate 3.69 hours of sick leave each pay period. There is no limit on sick leave accrual. Upon leaving City employment, the employee will be paid for one-half of sick leave accumulated not to exceed 360 hours.

City employees accrue vacation leave in varying amounts depending on the amount of service. An employee may carry no more than 80 hours of vacation leave to the next year. Any accumulated vacation leave in excess of 80 hours will be lost as of the anniversary date of the employee's hiring.

WASHINGTON CITY, UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Reconciliation of government-wide and fund financial statements

- A. Explanation of certain differences between the governments fund balance sheet and the government-wide statement of net assets.

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net assets of governmental activities as reported in the government-wide statement of net assets. These differences primarily result from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

Capital related items:

When capital assets (property, plant, & equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the City as a whole.

Cost of capital assets	\$ 28,216,581
Accumulated depreciation	(3,363,486)
Construction in Progress	<u>3,645,546</u>
Total difference	<u>\$ 28,498,641</u>

Long-term liabilities:

Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund financial statements.

Principal portion of bonds	\$ 13,063,000
Bond interest accrual	200,059
Compensated Absences Payable	<u>104,355</u>
Total Difference	<u>\$ 13,367,414</u>

- B. Explanation of differences between governmental fund operating statements and the statement of net activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. The first element of this reconciliation states that capital outlays are reported in the governmental funds as expenditures while the government-wide statement of

WASHINGTON CITY, UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

activities allocates these costs over the useful lives of the assets as depreciation. While shown in the reconciliation as the net difference, the elements of this difference are as follows:

Capital outlay	\$ 3,074,794
Depreciation expense	(422,899)
New difference as reported	<u>\$ 2,651,895</u>

The governmental funds report bond proceeds as an other financing source, while repayment of bond principal is reported as an expenditure. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of bonds and related items is as follows:

Repayment of bond principal	560,000
Repayment of capital lease principal	9,002
Accrued interest expense	(32,311)
Net increase in compensated absences	(5,677)
Contributions	<u>788,521</u>
Net Difference	<u>\$1,319,535</u>

NOTE 2. LEGAL COMPLIANCE - BUDGETS/STATUTORY

On or before the first scheduled council meeting in May, all agencies of the City submit requests for appropriation to the City's budget officer so that a budget may be prepared. The budget is prepared by fund, function, and activity, and includes information of the past year, current year estimates, and requested appropriations for the next fiscal year.

The proposed budget is presented to the City council for review at the first scheduled meeting in May. The City council holds public hearings and may add to, subtract from, or change appropriations, but may not change the form of the budget. Any changes to the budget must be within the revenues and

WASHINGTON CITY, UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 2. LEGAL COMPLIANCE - BUDGETS/STATUTORY - CONTINUED

reserves estimated as available by the City financial officer or the revenue estimates must be changed by an affirmation vote of a majority of the City council. Within 30 days of adoption, the final budget must be submitted to the State Auditor. If there is no increase to the certified tax rate, a final tax rate is adopted by June 22 and adoption of budgets is done similarly. State statute requires that City officers shall not make or incur expenditures or encumbrances in excess of total appropriations for any department in the budget as adopted or subsequently amended.

NOTE 3. CASH AND INVESTMENTS:

The City maintains a cash and investment pool, which includes the cash account and several investments. The City also has deposits held by the Trust Department of Zions Bank as fiscal agent for bonds issued.

The City's deposit and investment policy is to follow the Utah Money Management Act. However, the City does not have a separate deposit or investment policy that addresses specific types of deposit and investment risks to which the City is exposed.

Utah State law requires that City funds be deposited with a "qualified depository" as defined by the Utah Money Management Act. "Qualified depository" includes any depository institution which has been certified by the Utah State Commissioner of Financial Institutions as having met the requirements as defined in Rule 11 of the Utah Money Management Act. Rule 11 establishes the formula for determining the amount of public funds which a qualified depository may hold in order to minimize risk of loss and defines capital requirements which an institution must maintain to be eligible to accept public funds.

The Utah Money Management Act also governs the scope of securities allowed as appropriate temporary investments for the City and conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

As of June 30, 2005, the City had the following deposits and investments:

<u>Deposit and investment type</u>	<u>Fair Value</u>
Cash on deposit	\$ (2,022,324)
State Treasurer's investment pool	23,104,755
Cash with Fiscal Agent	<u>12,668,130</u>
	<u>\$ 33,750,561</u>

Interest rate risk. The City manages its exposure to declines in fair value by only investing in the Utah Public Treasurers Investment Fund.

WASHINGTON CITY, UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 3. CASH AND INVESTMENTS - CONTINUED

Credit risk. As of June 30, 2005 the Utah Public Treasurer's Investment Fund was unrated.

Concentration of credit Risk. The City's investment in the Utah Public Treasurer's Investment Fund has no concentration of credit risk.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2005 none of the deposits was exposed to custodial credit risk because it was uninsured or uncollateralized.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City's investment in the Utah Public Treasurer's Investment Fund has no custodial credit risk.

Components of cash and investments (including interest earning deposits) at June 30, 2005, are as follows:

Cash on hand and on deposit:	
Cash on deposit	\$ (2,022,324)
Utah State Treasurer's investment pool account	23,104,755
Cash with fiscal agent	<u>12,668,130</u>
Total cash and investments	<u>\$ 33,750,561</u>

Cash and investments are included in the accompanying combined statement of net assets as follows:

Cash and cash equivalents	\$ 35,517,619
Negative Cash Balances	<u>(1,767,058)</u>
Total cash and investments	<u>\$ 33,750,561</u>

WASHINGTON CITY, UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 4. LONG-TERM DEBT:

The following is a summary of Long-Term Debt transactions of the City for the fiscal year ending June 30, 2005.

	Date of Issue	Interest Rate	Total Issued	Outstanding June 30, 2004	Matured During Year	Outstanding June 30, 2005
BOND ISSUE						
Special Assessment Bonds-93-1	6/4/95	4.8%-7%	\$289,000	\$29,000	\$29,000	
Special Assessment Bonds-94-1	6/14/95	4.8%-7%	681,000	69,000	69,000	
			<u>\$970,000</u>	<u>\$98,000</u>	<u>\$98,000</u>	
Revenue Bonds						
Sales Tax Rev. Bond-2003	9/10/03	3%-5.25%	\$4,270,000	\$4,270,000	\$145,000	\$4,125,000
Electric Revenue Bonds	10/6/04	1.65%-5%	7,845,000			7,845,000
Golf Course Refunding Bonds	4/1/94	4.2%-5.7%	4,950,000	2,090,000	375,000	1,715,000
Excise Tax Revenue Bonds -1995	6/29/95	5.35%-6.20%	286,000	36,000	36,000	
Water Revenue Bonds - 1993C	3/1/95	0%	1,362,000	818,000	68,000	750,000
Water Revenue Bonds - 1993A	3/20/96	0%	1,362,000	800,000	80,000	720,000
Water Revenue Bonds - 1993B	4/10/96	4.5%	1,000,000	910,694	15,463	895,231
Water Revenue Bonds - 1996	6/7/96	4.5%	375,000	342,524	4,953	337,571
Lease Revenue Bond - 1995	12/8/95	5.39%	1,600,000	960,000	110,000	850,000
Lease Revenue Bond - 1996	6/19/96	6.12%	400,000	249,000	27,000	222,000
Lease Revenue Bond - 1998	12/08/98	4.45%-4.9%	875,000	490,000	90,000	400,000
Sewer Revenue Bond - 1999	5/27/99	2%	3,356,000	2,884,000	123,000	2,761,000
Water Revenue Bonds - 2000B	1/14/01	0%	1,150,000	1,005,000	50,000	955,000
Water Revenue Bonds - 2000A	6/15/01	3.25%	1,639,900	1,578,413	24,280	1,554,133
Sales Tax Revenue Bond - 2001	1/2/02	2.7%-4.5%	1,000,000	915,000	54,000	861,000
Water Revenue Bonds - 2002B	11/1/02	2.59%	685,000	658,000	27,000	631,000
Water Revenue Bonds - 2002A	9/26/03	4.25%	2,400,000	2,384,426	22,015	2,362,411
Total Revenue Bonds			<u>\$34,555,900</u>	<u>\$20,391,057</u>	<u>\$1,251,711</u>	<u>\$26,984,346</u>
Coral Canyon SSD:						
G.O. Bonds - 2001	5/1/01	5.5%-6.10%	\$900,000	\$900,000	\$	\$900,000
G.O. Bonds - 2001A	11/27/01	4.7%-6%	2,525,000	2,525,000		2,525,000
G.O. Bonds - 2003	10/15/03	5%-5.9%	3,180,000	3,180,000		3,180,000
Total Revenue Bonds			<u>\$6,605,000</u>	<u>\$6,605,000</u>	<u>\$</u>	<u>\$6,605,000</u>

WASHINGTON CITY, UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 4. CHANGES IN LONG-TERM DEBT - CONTINUED

Revenue Bonds Payable at June 30, 2005, is comprised of the following individual issues:

Golf Course Revenue Refunding Bonds payable dated 1994 and payable in installments of \$115,000 to \$465,000 through 2008 bearing interest at 4.2% to 5.7%. \$ 1,715,000

Electric Revenue Bonds - Series 2004 issued October 2, 2004 in the amount of \$7,845,000. Principal payable in annual installments of \$275,000 to \$585,000. The bonds bear interest of 1.65% to 5%. 7,845,000

Water System Water Revenue Bonds, series 1993C payable in annual installments of \$68,000 to \$137,000 through January 1, 2005 bearing no interest. 750,000

Water System Water Revenue Bonds Series 1993 A payable in annual installments of \$67,000 to \$80,000 with a final payment of \$160,000 due January 1, 2013. The bonds bear no interest. 720,000

Water Revenue Bonds, Series 1996 payable in monthly installments of \$1,688 bearing interest at 4.50%. 337,571

Lease Revenue Bonds, Series 1995 issued by the Municipal Building Authority of Washington City, Washington County, Utah. Bonds are secured by a lease agreement with Washington City, Utah payable in semi-annual installments of \$35,000 to \$75,000 on June 1 and December 1 of each year. Principal payments begin June 1, 1997 with interest payments beginning June 1, 1997 with interest payments beginning June 1, 1996. The bonds bear a net interest cost of 5.39%. 850,000

Lease Revenue Bonds, Series 1996 issued by the Municipal Building Authority of Washington City, Washington County, Utah. Bonds are secured by a lease agreement with Washington City, Utah payable in semi-annual installments of \$9,000 to \$20,000 on June 1 and December 1 of each year. Principal payments begin December 1, 1997 with interest payments beginning December 1, 1996. The bonds bear a net interest cost of 6.12% 222,000

Water Revenue Bonds Series 1993 B payable in monthly installments of \$4,500 through January 10, 2036 bearing interest at 4.50%. 895,231

WASHINGTON CITY, UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 4. CHANGES IN LONG-TERM DEBT - CONTINUED

Lease Revenue Series 1998 Park bonds issued by the Municipal Building Authority, payable in annual installments of \$70,000 to \$110,000 beginning December 1, 1999. The bonds bear interest of 4.45% to 4.9%. Interest is paid semi-annually.	400,000
Sewer Revenue Bonds, Series 1999 approved May 27, 1999 in the total amount of \$3,356,000. Payable in annual installments of \$119,000 to \$219,000. The bonds bear interest of 2%.	2,761,000
Water Revenue Bonds - Series 2000B January 17, 2001 dated were issued in the amount of \$1,150,000. The bonds are held by the State of Utah - Drinking Water Board and bear 0% interest. Payments are made yearly in January and range from \$48,000 to \$69,000.	955,000
Water Revenue Bonds - Series 2000 A were issued in the amount of \$1,639,900. The bonds are held by USDA - RD bear interest of 3.25%. Payments of \$6,117 are made monthly.	1,554,133
Sales Tax Revenue Bonds - Series 2001 were issued in the amount of \$1,000,000. Payable in annual installments of \$33,000 to \$89,000 beginning November 15, 2002. The bonds bear interest of 2.7% to 4.5%	861,000
Water Revenue Bonds Series 2002B payable in yearly installments of \$27,000 to \$44,000 bearing interest of 2.59%	631,000
Water Revenue Bonds, Series 2002A. Payable in monthly installments of \$10,416 with a final payment due August, 2043. The bonds bear interest of 4.25%	2,362,411
Sales Tax Revenue Bonds Series 2003. Payable in annual installments of \$145,000 to \$320,000 with interest paid semi-annually. The bonds bear interest of 3% to 5.25%.	<u>4,125,000</u>
Revenue Bonds payable at June 30, 2005	<u><u>\$26,984,346</u></u>

WASHINGTON CITY, UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 4. CHANGES IN LONG-TERM DEBT - CONTINUED

Coral Canyon Special Service District:

The Coral Canyon Special Service District issued general obligation road bonds during the fiscal years ending June 30, 2001 and June 30, 2002. Proceeds will be used to construct roads and infrastructure within the boundaries of the District.

Bonds outstanding as of June 30, 2005, is comprised of the following issues:

General Obligation Road Bonds - Series 2001 were issued during the year ended June 30, 2002 in the amount of \$900,000. The bonds bear interest of 5.5% to 6.10% with payments due annually in July beginning July 15, 2007. Payments range from \$25,000 to \$75,000. \$ 900,000

General Obligation Bonds - Series 2001A were issued during the year ended June 30, 2002 in the amount of \$2,525,000. The bonds bear interest of 4.7% to 6% with principal payments due annually of \$75,000 to \$205,000 beginning July of 2007. Interest is paid semi-annually beginning July, 2002. 2,525,000

General Obligation Bonds - Series 2003 issued October 15, 2003 in the amount of \$3,180,000 payable in annual installments of \$95,000 to \$245,000 with the final payment due July 15, 2028. Interest is paid semi-annually at a rate of 5% to 5.9%. 3,180,000

General Obligation Bonds Payable at June 30, 2005 \$ 6,605,000

Water, Sewer, Electric, and Golf Course Revenue Bonds constitute special obligations of the City solely secured by a lien on and pledge of the net revenues of the water, sewer, electric, and golf course funds.

The revenue bonds are collateralized by the revenue of the above funds and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the systems is to be used first to pay operating and maintenance expenses and second to establish and maintain the revenue bond funds. Any remaining revenues may then be used for any lawful purpose. The ordinances also contain certain provisions which require the City to maintain pledged revenues, as defined in the ordinances, for each year sufficient to pay the annual debt service requirements.

WASHINGTON CITY, UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 4. CHANGES IN LONG-TERM DEBT - CONTINUED

The City's total future bonded debt service including interest of \$18,000,794 as of June 30, 2005 is as follows:

<u>Year Ending</u>	<u>Annual</u>
2006	2,903,599
2007	2,933,363
2008	3,031,125
2009	3,032,184
2010	2,533,537
2011	2,540,571
2012	2,442,451
2013	2,419,516
2014	2,259,565
2015	2,331,921
2016	2,194,005
2017	2,193,061
2018	2,108,604
2019	2,101,459
2020	2,102,767
2021	1,877,149
2022	1,810,981
2023	1,807,732
2024	1,764,832
2025	1,426,735
2026	829,200
2027	749,497
2028	539,336
2029	524,880
2030	272,652
2031	272,652
2032	272,652
2033	272,652
2034	272,652
2035	272,653
2036	241,978
2037	198,396
2038	198,396
2039	198,396
2040	198,396
2041	190,832
2042	124,992
2043	124,992
2044	19,779
	<u>\$51,590,140</u>

WASHINGTON CITY, UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 5. COMPONENTS OF RESERVED FUND EQUITY:

General Fund:	
Debt Service - Sales and Excise Tax Bonds	\$436,073
Other Governmental Funds:	
Telegraph Road	104,528
Swimming Pool	3,379
City Offices	511
Street Improvement	2,470,952
Park Property	1,308,235
Recreation Facilities	5,897
Mile Post 13	1,896,283
Street Impact Fees	1,937,307
Parks/Recreation Impact Fees	1,152,882
Fire Station Impact Fee	183,418
Historic Park	17
Nisson Park	483
Trail System	443,422
Property Acquisition	813,327
General Capital Projects	1,835,434
Municipal Building Authority	511,996
General Plan	(46,441)
Cemetery Capital Projects	503,214
Special Improvement Districts	<u>183,984</u>
Total Other Governmental Funds	<u>13,308,828</u>
Total Governmental Funds	<u><u>\$13,744,901</u></u>

WASHINGTON CITY, UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 5. COMPONENTS OF RESERVED FUND EQUITY - CONTINUED:

Enterprise Funds:

Water Fund:

Debt Service	\$ 474,247
Impact Fees	<u>4,225,899</u>
Total Water Fund	4,700,146

Sewer Fund:

Debt Service	48,932
Impact Fees	<u>3,103,982</u>
Total Sewer Fund	3,152,914

Golf Course:

Debt Service	<u>865,627</u>
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Electric Fund:

Debt Service	6,809,273
Impact Fees	<u>2,111,933</u>
Total Electric Fund	8,921,206

Total Enterprise Fund	<u><u>\$17,639,893</u></u>
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NOTE 6. LITIGATION:

Washington City is presently involved in matters of litigation in which individuals request significant damages from the City. Several cases have been forwarded to the City's insurer for review. The outcome of these cases is uncertain.

NOTE 7. RESTRICTED ACCOUNTS - BOND COVENANTS:

Washington City maintains the following cash balances in compliance with various bond agreements:

Sales, lease and excise tax revenue bonds	\$ 4,518,983
Water fund bonds	474,247
Sewer fund bonds	48,932
Golf course bonds	865,627
Electric bonds	<u>6,809,273</u>
Total	<u><u>\$ 12,717,062</u></u>

WASHINGTON CITY, UTAH
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 7. RESTRICTED ACCOUNTS - BOND COVENANTS - CONTINUED

The above amounts represent reserve, emergency repair, construction, and sinking funds restricted for payment of bond principal, interest and construction costs as they come due.

NOTE 8. ADVANCED REFUNDING:

During the fiscal year ended June 30, 1994, the City effected an advanced refunding of bonds previously issued by the golf course fund. The advanced refunding was accomplished by issuing a refunding bond issue dated April 1, 1994 and resulted in the defeasance of the bonds previously issued. The new bonds issued were the Golf Course Refunding Revenue Bonds Series 1994 in the amount of \$4,950,000.

The Golf Course Refunding Revenue Bonds defeased two previous bond issues. The two issues defeased were the Golf Course Revenue Bonds Series 1988 originally issued in the amount of \$4,320,000 and the Subordinated Golf Course Revenue Bonds Series 1992 in the amount of \$255,000. The amounts defeased were \$3,955,000 and \$255,000 respectively.

This transaction is considered to be an advanced refunding in that a portion of the proceeds of the refunding bonds have been placed in irrevocable escrows controlled by the trust department of Zions First National Bank in sufficient amount to pay principal on the bonds up to the first call date and then to pay all remaining principal at the time of the first call date.

For the Golf Course Revenue Bonds, principal payments totaling \$1,030,000 were made by the refunding escrow through September 1, 1999 with the remaining bonds called in the amount of \$2,925,000. The Subordinated Golf Course Revenue Bonds were callable at the time of the refunding and were paid in full by the refunding escrow in the amount of \$255,000.

In accordance with generally accepted accounting principles concerning advanced refunding, the defeased bonds and the refunding escrow are not reported by the City as part of its financial statements. The City chose to adopt early the provisions of Statement No. 23 of the Governmental Accounting Standards Board issued in December, 1993. Under provisions of Statement No. 23, the difference between the net carrying amount of the defeased bonds and the reacquisition price of the new debt will be carried as a deferred charge on the balance sheet of the City and charged off to expense over the life of the new debt since the refunding bonds are amortized over the same term as the old debt.

The amount of the deferred charge carried on the balance sheet of the Golf Course Fund at year end is \$222,216. \$52,846 will be charged to expense each year until the bonds are paid in full on September 1, 2008.

Total net debt service of the refunding bonds for the Golf Course issue totals \$7,167,385 compared to total prior debt service of \$7,465,695. The net present value of savings is \$276,046.

WASHINGTON CITY, UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 8. ADVANCED REFUNDING - CONTINUED:

The Golf Course Refunding Bonds bear interest at an average coupon rate of 5.22046% compared to average coupon rates of 8.938890% and 7.875% on the previous debt.

NOTE 9. EXPENDITURES IN EXCESS OF BUDGET:

Expenditures in the General Fund for City Manager, Human Resources, Judicial, Animal Welfare, Cemetery, Swimming Pool, and Transfers Out categories exceeded the adopted budget.

NOTE 10. REPAYMENT OF SEWER FUND LOAN BY GOLF COURSE FUND:

Subsequent to the year ended June 30, 2005, the Golf Course Fund paid in full the loan from the Sewer Fund.

NOTE 11. DEFINED BENEFIT PENSION PLAN:

Plan Description. Washington City contributes to the Local Governmental Contributory Retirement System and Local Governmental Noncontributory Retirement System, cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System, Local Governmental Noncontributory Retirement System, Public Safety Retirement System for employers with (without) Social Security coverage, and Firefighters Retirement System which are for employers with (without) Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy. In the Local Governmental Noncontributory Retirement System Washington City is required to contribute 11.09% of their annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

WASHINGTON CITY, UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 11. DEFINED BENEFIT PENSION PLAN - CONTINUED:

Washington City contributions to the Local Governmental Noncontributory Retirement System for the years ending June 30, 2005, 2004 and 2003 were \$262,329, \$192,700 and \$168,612 respectively. The contributions were equal to the required contributions for each year.

The City ceased participation in the Contributory System effective July 1, 1996.

NOTE 12. BONDS ISSUED:

During the fiscal year the City issued the following bonds:

Electric Revenue Bonds - Series 2004 in the amount of \$7,845,000. The Bonds bear interest of 1.65% to 5%.

NOTE 13. RISK MANAGEMENT:

Washington City is subject to various types of risk such as tort actions, theft, damage, or destruction of assets by intent or acts of God, and job related illnesses or injury.

The City has procured commercial insurance coverage, which in the City's estimation, is adequate to reduce the risk of loss to a manageable level.

NOTE 14. MUNICIPAL BUILDING AUTHORITY LEASE:

On December 1, 1995, the Municipal Building Authority of Washington City, Washington County (the Authority) entered into a lease arrangement with Washington City. The lease was later amended to reflect a change in the project being constructed by the Authority. The amendment to the lease is dated June 1, 1996.

Pursuant to the lease arrangement, the Authority is to demolish the existing two-story City office building and acquire and construct a new office facility. In order to construct the new office facility, the Authority issued two separate lease revenue bond issues dated 1995 and 1996 in the amount of \$1,600,000 and \$400,000 respectively. Proceeds of the bond issues have been deposited with the trust department of Zions First National Bank as fiscal agent for the bonds.

The initial term of the lease commences as of the date of delivery of the Series 1995 Lease Revenue Bonds and terminates on June 30, 1996. The lease term may be continued, solely at the option of Washington City, beyond the termination of the original term for an additional year, the first "renewal

WASHINGTON CITY, UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 14. MUNICIPAL BUILDING AUTHORITY LEASE - CONTINUED:

term", and for 14 consecutive additional renewal terms thereafter each of one year in duration except that the final renewal term will commence July 1, 2011 and end on December 1, 2011. The City makes an election to continue the lease for the next renewal term by budgeting sufficient City funds to pay the base and reasonably estimated additional rentals due during the next following renewal term. The City renewed the lease for the next fiscal year.

The City and the Authority acknowledge and agree that the obligation of the City to pay base rentals and additional rentals constitutes a current expense of the City payable exclusively from City funds and shall not in any way be construed to be an obligation or indebtedness of the City within the meaning of Sections 3 or 4 of Article XIV of the Utah Constitution, or any other constitutional or statutory limitation or requirement applicable to the City concerning the creation of indebtedness. The lease is to be deemed a net lease.

The terms of the lease require Washington City to pay certain base rentals which approximate the principal and interest due on the lease revenue bonds issued by the Authority. The following table summarizes the base rental payments.

WASHINGTON CITY, UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 14. MUNICIPAL BUILDING AUTHORITY LEASE - CONTINUED:

Schedule of Base Rental Payments

<u>Payment Date</u>	<u>Base Rentals Attributable to Series 1995 Bonds</u>	<u>Base Rentals Attributable to Series 1996 Bonds</u>	<u>Total Base Rental Payment</u>
May 15, 1996	\$ 41,451.52	\$	\$ 41,451.52
Nov 15, 1996	43,128.75	10,693.58	53,822.33
May 15, 1997	78,128.75	11,881.75	90,010.50
Nov 15, 1997	77,227.50	20,881.75	98,109.25
May 15, 1998	76,326.25	20,638.75	96,965.00
Nov 15, 1998	80,416.25	20,395.75	100,812.00
May 15, 1999	79,376.25	21,143.75	100,520.00
Nov 15, 1999	78,306.25	20,863.75	99,170.00
May 15, 2000	77,236.25	20,573.75	97,810.00
Nov 15, 2000	81,166.25	21,283.75	102,450.00
May 15, 2001	79,962.50	20,959.25	100,921.75
Nov 15, 2001	78,736.25	20,634.75	99,371.00
May 15, 2002	77,510.00	20,304.75	97,814.75
Nov 15, 2002	76,272.50	20,974.75	97,247.25
May 15, 2003	80,035.00	20,608.75	100,643.75
Nov 15, 2003	78,647.50	21,242.75	99,890.25
May 15, 2004	77,260.00	20,839.75	98,099.75
Nov 15, 2004	80,872.50	20,436.75	101,309.25
May 15, 2005	79,346.25	21,033.75	100,380.00
Nov 15, 2005	77,806.25	20,599.75	98,406.00
May 15, 2006	76,266.25	21,162.25	97,428.50
Nov 15, 2006	79,795.00	20,693.50	100,488.50
May 15, 2007	78,190.00	21,251.00	99,441.00
Nov 15, 2007	76,585.00	20,779.00	97,364.00
May 15, 2008	79,980.00	20,307.00	100,287.00
Nov 15, 2008	78,241.25	20,835.00	99,076.25
May 15, 2009	76,502.50	20,333.50	96,836.00
Nov 15, 2009	79,763.75	20,832.00	100,595.75
May 15, 2010	77,891.25	21,301.00	99,192.25
Nov 15, 2010	81,018.75	20,740.50	101,759.25
May 15, 2011	79,012.50	21,180.00	100,192.50
Nov 15, 2011	<u>77,006.25</u>	<u>20,590.00</u>	<u>97,596.25</u>
TOTALS	\$ <u>2,439,465.27</u>	\$ <u>625,996.33</u>	\$ <u>3,065,461.60</u>

WASHINGTON CITY, UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 14. MUNICIPAL BUILDING AUTHORITY LEASE - CONTINUED:

In addition to the base rentals, the lease requires the City to pay additional rentals which are defined as any costs of the Trustee, Zions First National Bank, associated with the administration of the bond trust accounts as well as the costs of maintenance, operation, and repair of the leased property.

The City, at its option, may exercise a purchase option for the purpose of terminating the payment obligation of the City under this lease and purchasing the Authority's interest in the project.

The purchase option shall be an amount, when added to amounts being held by the Trustee for payment of bonds, sufficient to pay, defease, retire and/or redeem all the outstanding bonds, as appropriate, in accordance with the provisions of the indenture.

NOTE 15. CAPITAL LEASES:

Washington City has entered into capital lease agreements which require the following scheduled payments:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 55,959	\$ 4,424	\$ 60,383
2007	57,302	3,082	60,384
2008	58,679	1,457	60,136
2009	<u>15,930</u>	<u>289</u>	<u>16,219</u>
Total	<u>\$187,870</u>	<u>\$ 9,252</u>	<u>\$197,122</u>
Enterprise Fund	<u>\$187,870</u>	<u>\$ 9,252</u>	<u>\$197,122</u>

Capitalized leases in the enterprise funds are depreciated over the useful life of the asset (see Note 1). Depreciation on capitalized leases is included with depreciation expense in the various enterprise funds.

NOTE 16. BOND COVENANTS

Bond covenants of the Golf Course Refunding bonds require that net revenues be 1.20 times the debt service expenditures of the next fiscal year. The ratio for the year ending June 30, 2005 was .822.

WASHINGTON CITY, UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 17. CORAL CANYON SPECIAL SERVICE DISTRICT:

On June 14, 2000, the City adopted Resolution Number 2000-14 creating the Coral Canyon Special Service District pursuant to Section 17A-2-1312 of the Utah Special Services District Act, Utah Code Annotated 1953.

The City Council of Washington City, Utah acts as the supervisory authority over all activities of the District. The District has issued bonds to finance construction of public infrastructure. The bonds issued are general obligation bonds and are the responsibility of the Coral Canyon Special Service District. The remaining debt service of these bonds at year end is as follows:

Coral Canyon SSD General Obligation Bonds - Series 2001

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$	\$53,530	\$53,530
2006		53,530	53,530
2007		53,530	53,530
2008	25,000	53,530	78,530
2009	30,000	52,155	82,155
2010	30,000	50,505	80,505
2011	30,000	48,855	78,855
2012	35,000	47,205	82,205
2013	35,000	45,280	80,280
2014	40,000	43,180	83,180
2015	40,000	40,780	80,780
2016	40,000	38,380	78,380
2017	45,000	35,980	80,980
2018	50,000	33,280	83,280
2019	50,000	30,280	80,280
2020	55,000	27,280	82,280
2021	55,000	23,980	78,980
2022	60,000	20,680	80,680
2023	65,000	17,080	82,080
2024	70,000	13,115	83,115
2025	70,000	8,845	78,845
2026	75,000	4,575	79,575
	<u>\$900,000</u>	<u>\$795,555</u>	<u>\$1,695,555</u>

WASHINGTON CITY, UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 17. CORAL CANYON SPECIAL SERVICE DISTRICT - CONTINUED:

Coral Canyon SSD General Obligation Bonds - Series 2001A

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$	\$143,825	\$143,825
2006		143,825	143,825
2007		143,825	143,825
2008	75,000	142,063	217,063
2009	75,000	138,463	213,463
2010	80,000	134,645	214,645
2011	85,000	130,540	215,540
2012	90,000	126,143	216,143
2013	95,000	121,448	216,448
2014	100,000	116,195	216,195
2015	105,000	110,333	215,333
2016	110,000	104,205	214,205
2017	115,000	97,793	212,793
2018	120,000	91,095	211,095
2019	130,000	83,970	213,970
2020	135,000	76,463	211,463
2021	145,000	68,023	213,023
2022	155,000	59,173	214,173
2023	160,000	49,800	209,800
2024	170,000	39,900	209,900
2025	180,000	29,400	209,400
2026	195,000	18,150	213,150
2027	<u>205,000</u>	<u>6,150</u>	<u>211,150</u>
	<u>\$2,525,000</u>	<u>\$2,175,427</u>	<u>\$4,700,427</u>

WASHINGTON CITY, UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 17. CORAL CANYON SPECIAL SERVICE DISTRICT - CONTINUED:

Coral Canyon SSD General Obligation Bonds - Series 2003

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$	\$179,560	\$179,560
2006		179,560	179,560
2007		179,560	179,560
2008		179,560	179,560
2009		179,560	179,560
2010	95,000	177,185	272,185
2011	95,000	172,435	267,435
2012	100,000	167,560	267,560
2013	105,000	162,435	267,435
2014	110,000	157,060	267,060
2015	120,000	151,010	271,010
2016	125,000	144,273	269,273
2017	130,000	137,260	267,260
2018	140,000	129,765	269,765
2019	145,000	121,998	266,998
2020	155,000	113,515	268,515
2021	165,000	104,235	269,235
2022	175,000	94,375	269,375
2023	185,000	83,935	268,935
2024	195,000	72,915	267,915
2025	205,000	61,213	266,213
2026	215,000	48,823	263,823
2027	230,000	35,695	265,695
2028	245,000	21,683	266,683
2029	<u>245,000</u>	<u>7,228</u>	<u>252,228</u>
	<u>\$3,180,000</u>	<u>\$3,062,398</u>	<u>\$6,242,398</u>

WASHINGTON CITY, UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 18. UTILITY RATES AND STATISTICS

Rate Schedule	<u>Residential</u>	<u>Commercial</u>
Water:		
Minimum Monthly Charge	\$ 14.00	\$ 14.00/ERU
Usage in increments of 5,000 gallons to 40,000 gallons and over	\$.75 - 1.70	\$.75 - 1.70
Late Payment Penalty	5%	5%
Impact Fee - 3/4 in. line	\$ 3,182	\$ 3,182
- 1 in. line	5,250	5,250
- 1 1/2 in. line	11,869	11,869
- 2 in. line	20,842	20,842
- 3 in. line	46,273	46,273
- 4 in. line	83,273	83,273
- 6 in. line	187,356	187,356
Connection Fee - 3/4" meter	225	225
-1" meter	275	275
-1 1/2" meter	521	521
-2" meter	661	661
-3" meter	1,983	1,983
-4" meter	1,983	1,983

Larger meter connection fees are based on estimates of costs to connect.

Sewer:		
Monthly Charge		
North of Virgin River	\$ 25.50	\$ 25.50/ERU
South of Virgin River	27.50	27.50/ERU
Ridge Pointe /Subdivision	25.50 + 10.68	
Coral Canyon/Subdivision	25.50 + 4.60	
Impact Fee:		
North of Virgin River	650	650/ERU
South of Virgin River	2,150	2,150/ERU
Inspection Fee	150	150/ERU

Sewer System Statistics:

North of Virgin River:
Residential Equivalents connected to the
system at June 30, 2005 3,836
Applications in process None
Average monthly billing per customer \$ 27.50

South of Virgin River:
Residential Equivalents Connected to the
system at June 30, 2005 704

WASHINGTON CITY, UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 19. INSURANCE COVERAGE:

<u>Description</u>	<u>Coverage</u>	<u>Amount</u>
Automobile	Bodily injury liability: Combined Limit	\$2,000,000
	Property damage liability: Combined Limit	2,000,000
	Underinsured - Per Occurrence	50,000
	Uninsured - Person: Per occurrence	65,000
General Liability	Combined Limit	2,000,000
Property Coverage	All Risk Policy	17,250,769

Faithful Performance Bonds:

City Treasurer	\$ 500,000
City Recorder	50,000
City Bail Clerk	50,000
Blanket Bond (All employees except Treasurer)	50,000

NOTE 20. INFRASTRUCTURE

The City maintains its streets using a pavement management system. The condition of the pavements is based on a weighted average of seven distress factors found in pavement surfaces. The pavement management system uses a measurement scale that is based on a remaining service life ranging from 0 years to 20 years.

The weighted average pavement condition for the City's street pavement for the most recent year is as follows:

WASHINGTON CITY, UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 20. INFRASTRUCTURE - CONTINUED

Table of pavement condition

Remaining Service Life (Years)	Percent of Streets
0	2.77
1-2	.82
3-4	4.19
5-6	9.78
7-8	9.13
9-10	6.83
11-12	2.29
13-14	4.07
15-16	11.45
17-18	-
19-20	48.67
Total	100

Average remaining service life as of June 30, 2005 is 14.59 years

The City's administrative policy is to maintain 100% of its streets at an average remaining service life (RSL) of 12.6 years. This rating allows for minor cracking and revealing of the pavement along with minor roughness that could be noticeable to drivers traveling at posted speed. The City expended \$300,194 for street preservation for fiscal 2005.

Under the "modified approach," the City recorded infrastructure assets at estimated original cost, but did not record accumulated depreciation against these assets. Instead of recording depreciation, the City is committed to incur the maintenance expenses necessary to preserve its paved roadway lane miles at a weighted average condition of 12.6 years on a scale of 0 to 20 years. Improvements that lengthen the lives of infrastructure assets are not recorded unless they increase capacity of service potential, in which case they are recorded as additions to infrastructure at original cost. Therefore, resurfacing done to existing streets is not capitalized, but is treated as a maintenance expenditure under the "modified approach."

WASHINGTON CITY, UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 20. INFRASTRUCTURE - CONTINUED

The City conducts periodic physical condition assessments and theoretical deterioration modeling to determine whether infrastructure assets are being maintained at the levels required. The most recent condition assessment performed in May 2001 showed that the City had overall average condition ratings of 10.37 years. During the fiscal year 2005, the street department spent \$300,194, versus a budget of \$330,000, on the maintenance of the City's infrastructure assets, which indicates the relative level of expenditures that the City makes to maintain its infrastructure assets at required conditions.

NOTE 21. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decrease</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 1,200,767			\$ 1,200,767
Construction in progress	4,173,916	2,350,505	(2,878,875)	3,645,546
Infrastructure assets	13,235,778	3,649,617		16,885,395
Total capital assets, not being depreciated	18,610,461	6,000,122	(2,878,875)	21,731,708
Capital assets, being depreciated:				
Building & structures	7,845,957	22,848		7,868,805
Machinery & Equipment	390,727	121,811		512,538
Automobiles & Trucks	1,188,734	629,125	(68,783)	1,749,076
Total capital assets, being depreciated	9,425,418	773,784	(68,783)	10,130,419
Accumulated depreciation for:				
Building & Structures	2,207,552	230,200		2,437,752
Machinery & Equipment	193,552	53,703		247,255
Automobiles & Trucks	576,550	138,997	(37,067)	678,480
Total accumulated depreciation	2,977,654	422,900	(37,067)	3,363,487
Total capital assets, being depreciated, net	6,447,764	350,885	(31,716)	6,766,933
Governmental activities capital assets, net	<u>\$ 25,058,225</u>	<u>\$ 6,351,006</u>	<u>\$ (2,910,591)</u>	<u>\$ 28,498,640</u>

WASHINGTON CITY, UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 21. CAPITAL ASSETS - CONTINUED

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decrease</u>	<u>Ending Balance</u>
Business type activities:				
Capital assets, not being depreciated				
Land & Water Rights	\$ 1,192,459			\$ 1,192,459
Construction in progress	6,806,443	2,119,325	(6,672,761)	2,253,007
Total capital assets, not being depreciated	<u>7,998,902</u>	<u>2,119,325</u>	<u>(6,672,761)</u>	<u>3,445,466</u>
Capital assets, being depreciated:				
Building & Structures	441,647	69,000		510,647
Improvement other than buildings	27,405,249	11,177,136	(20,000)	38,562,385
Machinery & Equipment	2,042,482	83,343		2,125,825
Automobiles & Trucks	1,398,917	264,770	(373,208)	1,290,479
Total capital assets, being depreciated	<u>31,288,295</u>	<u>11,594,249</u>	<u>(393,208)</u>	<u>42,489,336</u>
Accumulated depreciation for:				
Building & Structures	174,623	12,879		187,502
Improvements other than buildings	8,610,092	709,190		9,319,282
Machinery & Equipment	1,466,547	114,904	(1,382)	1,580,069
Automobiles & Trucks	830,054	70,827	(248,234)	652,647
Total accumulated depreciation	<u>11,081,316</u>	<u>907,800</u>	<u>(249,616)</u>	<u>11,739,500</u>
Total capital assets, being depreciated, net	<u>20,206,979</u>	<u>10,686,449</u>	<u>(143,592)</u>	<u>30,749,836</u>
Business type activities capital assets, net	<u><u>\$ 28,205,881</u></u>	<u><u>\$ 12,805,774</u></u>	<u><u>\$ (6,816,353)</u></u>	<u><u>\$ 34,195,302</u></u>

WASHINGTON CITY, UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 21. CAPITAL ASSETS - CONTINUED

	<u>Beginning Balance</u>
Depreciation was charged to functions as follows:	
General government	\$ 67,907
Public safety	131,119
Streets & Highways	53,157
Parks, cemetery, and public property	162,717
Culture & recreation	4,522
Community & Economic development	<u>3,478</u>
Total	<u><u>\$ 422,900</u></u>

NOTE 22. SUBSEQUENT EVENTS

Subsequent to year end, the City completed a sale of land for a total sales price of \$12,200,000. The City used part of the proceeds of the sale to retire the outstanding Golf Course Refunding Bonds of \$1,715,000. A loan to the Golf Course Fund from the Sewer Fund was also paid in full.

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

WASHINGTON CITY
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
General Fund
Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
Budgetary fund balance, July 1	\$ 1,468,900	\$ 1,468,900	\$ 1,468,900	\$ -
Resources (inflows):				
Property taxes, levied for general purposes	863,000	985,570	982,294	(3,276)
General sales & use	2,019,893	2,700,000	2,774,913	74,913
Energy sales tax	55,000	117,309	61,080	(56,229)
Franchise tax	62,000	130,000	245,012	115,012
Earnings on investments	21,600	77,600	76,809	(791)
Licenses and permits	533,000	1,151,060	1,175,751	24,691
Intergovernmental revenues	423,308	459,729	459,729	(0)
Charges for services	88,700	393,978	437,079	43,101
Fines and forfeitures	200,000	260,000	262,262	2,262
Miscellaneous	119,000	279,539	21,774	(257,765)
Debt proceeds				-
Operating transfers in	1,335,900	1,592,025	1,578,076	(13,949)
Amounts available for appropriation	7,190,301	9,615,710	9,543,678	(72,032)
Charges to appropriations (outflows):				
General Government				
Administrative services	651,296	757,338	667,016	90,322
City manager	73,727	66,910	70,609	(3,699)
City recorder	182,744	158,052	149,518	8,534
City treasurer	161,984	145,108	144,771	337
Human resources	160,332	149,778	154,536	(4,758)
Judicial	117,548	116,163	116,180	(17)
Legislative council	57,630	54,710	53,694	1,016
Information technology		48,839	48,393	446
Public safety				
Public safety	585,980	575,387	475,636	99,751
Fire protection	361,619	445,429	412,658	32,771
Animal welfare	164,556	152,977	157,036	(4,059)
Streets & highways				
Streets & Highways	917,618	923,182	902,472	20,710
Parks, cemetery, and public property				
City shop	142,683	124,027	120,547	3,480
Park services	369,027	386,948	383,314	3,634
Cemetery	79,950	89,680	69,085	20,595
Culture & recreation				
Recreation services	85,068	73,812	67,931	5,881
Swimming pool	99,691	74,912	76,211	(1,299)
Community & economic development				
Community development	571,789	614,890	613,682	1,208
Debt service				
Principal retirements	253,872	246,180	235,000	11,180
Interest and fiscal charges	205,540	232,525	224,411	8,115
Transfers out to other funds				
Operating transfers out	478,747	2,973,310	3,200,984	(227,674)
Total charges to appropriations	5,721,401	8,410,157	8,343,683	66,474
Budgetary fund balance, June 30	\$ 1,468,900	\$ 1,205,553	\$ 1,199,994	\$ (5,559)

The notes to the financial statements are an integral part of this statement.

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

WASHINGTON CITY
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005

	Telegraph Road	Swimming Pool	City Offices	Street Improvement	Park Property	Recreation Facilities
Assets:						
Cash & cash equivalents	\$ 104,528	\$ 3,379	\$ 511	\$ 2,470,952	\$ 1,308,235	\$ 5,897
Special assessments receivable						
Other receivables						
Total assets	<u>\$ 104,528</u>	<u>\$ 3,379</u>	<u>\$ 511</u>	<u>\$ 2,470,952</u>	<u>\$ 1,308,235</u>	<u>\$ 5,897</u>
Liabilities:						
Cash with negative balances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Deferred revenue						
Total liabilities						
Fund balances:						
Reserved	104,528	3,379	511	2,470,952	1,308,235	5,897
Unreserved, undesignated						
Total fund balances	<u>104,528</u>	<u>3,379</u>	<u>511</u>	<u>2,470,952</u>	<u>1,308,235</u>	<u>5,897</u>
Total liabilities and fund balances	<u>\$ 104,528</u>	<u>\$ 3,379</u>	<u>\$ 511</u>	<u>\$ 2,470,952</u>	<u>\$ 1,308,235</u>	<u>\$ 5,897</u>

WASHINGTON CITY
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005

	Storm Drain	Street Impact Fee	Parks/Recreation Impact	Fire Station Impact	Historic Park	Nisson Park
Assets:						
Cash & cash equivalents	\$ -	\$ 1,937,307	\$ 1,152,882	\$ 183,417	\$ 17	\$ 483
Special assessments receivable						
Other receivables						
Total assets	\$ -	\$ 1,937,307	\$ 1,152,882	\$ 183,417	\$ 17	\$ 483
Liabilities:						
Cash with negative balances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Deferred revenue						
Total liabilities						
Fund balances:						
Reserved		1,937,307	1,152,882	183,417	17	483
Unreserved, undesignated						
Total fund balances		1,937,307	1,152,882	183,417	17	483
Total liabilities and fund balances	\$ -	\$ 1,937,307	\$ 1,152,882	\$ 183,417	\$ 17	\$ 483

WASHINGTON CITY
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005

	Trail System	Property Acquisition	General Plan	Cemetery Capital Projects	General Capital Projects	Municipal Building Authority
Assets:						
Cash & cash equivalents	\$ 443,422	\$ 813,327	\$ -	\$ 503,214	\$ 1,835,434	\$ 511,996
Special assessments receivable						
Other receivables						
Total assets	<u>\$ 443,422</u>	<u>\$ 813,327</u>	<u>\$ -</u>	<u>\$ 503,214</u>	<u>\$ 1,835,434</u>	<u>\$ 511,996</u>
Liabilities:						
Cash with negative balances	\$ -	\$ -	\$ 46,441	\$ -	\$ -	\$ -
Deferred revenue						
Total liabilities			<u>46,441</u>			
Fund balances:						
Reserved	443,422	813,327	(46,441)	503,214	1,835,434	511,996
Unreserved, undesignated						
Total fund balances	<u>443,422</u>	<u>813,327</u>	<u>(46,441)</u>	<u>503,214</u>	<u>1,835,434</u>	<u>511,996</u>
Total liabilities and fund balances	<u>\$ 443,422</u>	<u>\$ 813,327</u>	<u>\$ -</u>	<u>\$ 503,214</u>	<u>\$ 1,835,434</u>	<u>\$ 511,996</u>

WASHINGTON CITY
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005

	Coral Canyon Special Service District	Special Improvement District	Total Nonmajor Governmental Funds
Assets:			
Cash & cash equivalents	\$ -	\$ 21,990	\$ 11,296,992
Special assessments receivable		10,774	10,774
Other receivables	193,490		193,490
Total assets	<u>\$ 193,490</u>	<u>\$ 32,764</u>	<u>\$ 11,501,256</u>
Liabilities:			
Cash with negative balances	\$ 31,496	\$ -	\$ 77,938
Deferred revenue		10,774	10,774
Total liabilities	<u>31,496</u>	<u>10,774</u>	<u>88,711</u>
Fund balances:			
Reserved	161,994	21,990	11,412,545
Unreserved, undesignated			
Total fund balances	<u>161,994</u>	<u>21,990</u>	<u>11,412,545</u>
Total liabilities and fund balances	<u>\$ 193,490</u>	<u>\$ 32,764</u>	<u>\$ 11,501,256</u>

WASHINGTON CITY
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2005

	Telegraph Road	Swimming Pool	City Offices	Street Improvement	Park Property	Recreation Facilities	Storm Drain	Street Impact Fee
REVENUES:								
Property taxes, levied for general purposes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest earnings	848	81	12	32,155	9,428	9	-	32,733
Miscellaneous	665			5,598				1,679,883
Total Revenues	1,513	81	12	37,753	9,428	9		1,712,616
EXPENDITURES:								
Capital outlay	1,698			28,122	88,076			1,284
Debt service:								
Principal retirements								
Interest and fiscal charges								
Total Expenditures	1,698			28,122	88,076			1,284
Excess of Revenues over (under) Expenditures	(185)	81	12	9,631	(78,648)	9		1,711,332
OTHER FINANCING SOURCES (USES):								
Operating transfers in	50,000			1,032,174	1,062,053			
Operating transfers out							(494,057)	(655,599)
Total Other Financing Sources (Uses)	50,000			1,032,174	1,062,053		(494,057)	(655,599)
Excess of revenues and other sources over (under) expenditures and other uses	49,815	81	12	1,041,805	983,405	9	(494,057)	1,055,733
FUND BALANCES JULY 1	54,713	3,298	499	1,429,147	324,830	5,888	494,057	881,575
FUND BALANCES JUNE 30	\$ 104,528	\$ 3,379	\$ 511	\$ 2,470,952	\$ 1,308,235	\$ 5,897	\$ -	\$ 1,937,307

WASHINGTON CITY
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2005

	Parks Recreation Impact	Fire Station Impact	Historic Park	Nisson Park	Trail System	Property Acquisition	General Plan	Cemetery Capital Projects	General Capital Projects
REVENUES:									
Property taxes, levied for general purposes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			\$ -
Interest earnings	23,515	7,441	7	3	4,734	85	1,046	3,123	22,293
Miscellaneous	744,000	201,945	1,139	480	100,000				
Total Revenues	<u>767,515</u>	<u>209,386</u>	<u>1,146</u>	<u>483</u>	<u>104,734</u>	<u>85</u>	<u>1,046</u>	<u>3,123</u>	<u>22,293</u>
EXPENDITURES:									
Capital outlay		27,533			11,718		76,427		449,410
Debt service:									
Principal retirements									
Interest and fiscal charges									
Total Expenditures		<u>27,533</u>			<u>11,718</u>		<u>76,427</u>		<u>449,410</u>
Excess of Revenues over (under) Expenditures	<u>767,515</u>	<u>181,853</u>	<u>1,146</u>	<u>483</u>	<u>93,016</u>	<u>85</u>	<u>(75,381)</u>	<u>3,123</u>	<u>(427,117)</u>
OTHER FINANCING SOURCES (USES):									
Operating transfers in					150,000	812,675		378,000	850,638
Operating transfers out	<u>(472,684)</u>	<u>(90,799)</u>							
Total Other Financing Sources (Uses)	<u>(472,684)</u>	<u>(90,799)</u>			<u>150,000</u>	<u>812,675</u>		<u>378,000</u>	<u>850,638</u>
Excess of revenues and other sources over (under) expenditures and other uses	294,831	91,054	21,007	483	243,016	812,760	(75,381)	381,123	423,521
FUND BALANCES JULY 1	858,051	92,363	(20,990)		200,406	567	28,940	122,090	1,411,913
FUND BALANCES JUNE 30	<u>\$ 1,152,882</u>	<u>\$ 183,417</u>	<u>\$ 17</u>	<u>\$ 483</u>	<u>\$ 443,422</u>	<u>\$ 813,327</u>	<u>\$ (46,441)</u>	<u>\$ 503,214</u>	<u>\$ 1,835,434</u>

WASHINGTON CITY

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2005

	Municipal Building Authority	Coral Canyon Special Service District	Special Improvement District	Total Nonmajor Governmental Funds
REVENUES:				
Property taxes, levied for general purposes	\$ -	167,075	\$ -	\$ 167,075
Interest earnings	10,615	1,874	5,969	155,973
Miscellaneous		194,897	2,301	2,930,909
Total Revenues	10,615	363,846	8,270	3,253,956
EXPENDITURES:				
Capital outlay	19			684,288
Debt service:				
Principal retirements	227,000		98,000	325,000
Interest and fiscal charges	97,667	379,665	5,283	482,615
Total Expenditures	324,686	379,665	103,283	1,491,903
Excess of Revenues over (under) Expenditures	(314,071)	(15,819)	(95,013)	1,762,054
OTHER FINANCING SOURCES (USES):				
Operating transfers in	317,307			4,672,708
Operating transfers out	(111,643)		(242,023)	(2,066,804)
Total Other Financing Sources (Uses)	205,664		(242,023)	2,605,904
Excess of revenues and other sources over (under) expenditures and other uses	(108,406)	(15,819)	(337,035)	4,367,958
FUND BALANCES JULY 1	620,403	177,812	359,026	7,044,587
FUND BALANCES JUNE 30	\$ 511,996	\$ 161,994	\$ 21,990	\$ 11,412,545

WASHINGTON CITY
Combining Statement of Net Assets
Nonmajor Proprietary Funds
June 30, 2005

	<u>Irrigation Fund</u>	<u>Storm Drain Fund</u>	<u>Golf Course Fund</u>	<u>Total</u>
Assets				
Current assets:				
Cash & cash equivalents	\$ -	\$ 246,326	\$ 873,726	\$ 1,120,053
Accounts receivable (net of allowance)		15,626		15,626
Receivable from other governmental entities				-
Total current assets		<u>261,952</u>	<u>873,726</u>	<u>1,135,678</u>
Long-term assets:				
Deferred charge			222,216	222,216
Construction in progress		470,894		470,894
Capital assets, net of accumulated depreciation	10,193	735,753	3,076,713	3,822,659
Total long-term assets	<u>10,193</u>	<u>1,206,647</u>	<u>3,298,929</u>	<u>4,515,769</u>
Total assets	<u>10,193</u>	<u>1,468,599</u>	<u>4,172,655</u>	<u>5,651,447</u>
Liabilities and Net Assets				
Liabilities :				
Current liabilities:				
Negative cash balance	27,213		1,661,907	1,689,121
Accounts payable				-
Sales tax payable			5,663	5,663
Accrued interest			29,155	29,155
Payable to other funds			140,000	140,000
Deposits payable				-
Compensated absences payable			48,027	48,027
Deferred revenue				-
Capital leases payable within one year			19,774	19,774
Bonds payable within one year			395,000	395,000
Total current liabilities	<u>27,213</u>	<u>-</u>	<u>2,299,527</u>	<u>2,326,741</u>
Non-current liabilities:				
Capital leases payable within one year			40,351	40,351
Bonds payable after one year			1,267,154	1,267,154
Total non-current liabilities:	<u>-</u>	<u>-</u>	<u>1,307,506</u>	<u>1,307,506</u>
Total liabilities	<u>27,213</u>	<u>-</u>	<u>3,607,033</u>	<u>3,634,247</u>
Net assets:				
Invested in capital assets, net of related debt	10,193	1,206,647	1,354,433	2,571,273
Restricted for:				
Debt service			865,627	865,627
Other purposes				-
Unrestricted	(27,214)	261,952	(1,654,438)	(1,419,700)
Total net assets	<u>\$ (17,021)</u>	<u>\$ 1,468,599</u>	<u>\$ 565,622</u>	<u>\$ 2,017,200</u>

WASHINGTON CITY
Combining Statement of Revenues, Expenses and Changes in Net Assets
Nonmajor Proprietary Funds
Year Ended June 30, 2005

	Irrigation Fund	Storm Drain Fund	Golf Course Fund	Total
Operating revenues:				
Charges for services	\$ 16,070	\$ 138,833	\$ 1,269,461	\$ 1,424,364
Miscellaneous	(179)	69,816	7,894	77,531
Total operating revenues	15,891	208,649	1,277,355	1,501,895
Operating expenses:				
Salaries	4,450	1,120	481,572	487,143
Employees benefits	2,149	267	89,055	91,471
Utilities			51,321	51,321
Professional services	21,382	260,388	22,354	304,124
Repairs and maintenance		2,243	3,541	5,783
Lease expense			85,848	85,848
Miscellaneous		904	22,963	23,866
Supplies	8,174	2,996	152,873	164,043
Bad debt expense		5		5
Depreciation	576	2,237	136,050	138,863
Total operating expenses	36,731	270,160	1,045,577	1,352,468
Operating income (loss)	(20,840)	(61,511)	231,777	149,427
Nonoperating income:				
Interest earnings		12,337	24,404	36,741
Impact fees				
Connection Fees				
Contributions		836,325		836,325
Gain (Loss) on sale of assets			331	331
Interest & fiscal charges			(159,237)	(159,237)
Total nonoperating income	-	848,662	(134,502)	714,160
Net income (loss) before transfers	(20,840)	787,152	97,275	863,587
Transfer in	-	594,057		594,057
Transfer out				
Change in net assets	(20,840)	1,381,209	97,275	1,457,644
Net assets - beginning	3,819	87,390	468,347	559,556
Net assets - ending	\$ (17,021)	\$ 1,468,599	\$ 565,622	\$ 2,017,200

WASHINGTON CITY
Combining Statement of Cash Flows
Nonmajor Proprietary Funds
Year Ended June 30, 2005

	Irrigation Fund	Storm Drain Fund	Golf Course Fund	Total
Cash flows from operating activities:				
Cash received from customers	\$ 15,892	\$ 193,133	\$ 1,276,432	\$ 1,485,457
Cash payments to suppliers for goods and services	(29,212)	(266,536)	(338,900)	(634,648)
Cash payments to employees for services	(6,599)	(1,387)	(579,975)	(587,961)
Net cash provided (used) by operating activities	(19,919)	(74,790)	357,557	262,848
Cash flows from noncapital financing activities:				
Operating transfers (to) from other funds	-	594,057	-	594,057
Net cash (used) by noncapital financing activities	-	594,057	-	594,057
Cash flows from capital and related financing activities:				
Cash received from impact and connection fees				-
Other receipts (payments)		836,326	331	836,657
Acquisition of capital assets		(1,120,822)	(64,979)	(1,185,801)
Interest paid on capital debt			(110,058)	(110,058)
Amounts to other funds			(10,000)	(10,000)
Proceeds from long-term obligations				-
Principal paid on capital lease obligations			(38,761)	(38,761)
Principal paid on capital debt			(372,065)	(372,065)
Net cash (used) by capital and related activities	-	(284,496)	(595,532)	(880,028)
Cash flows from investing activities				
Interest received		12,337	24,404	36,741
Net cash (used) by investing activities	-	12,337	24,404	36,741
Net increase in cash and cash equivalents	(19,919)	247,108	(213,571)	13,618
Cash and Cash Equivalents - Beginning	(7,294)	(782)	(574,610)	(582,686)
Cash and Cash Equivalents - Ending	\$ (27,213)	\$ 246,326	\$ (788,181)	\$ (569,068)
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (20,840)	\$ (61,511)	\$ 231,777	\$ 149,427
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	576	2,237	136,050	138,863
Increase decrease accounts receivable		(15,517)	(923)	(16,440)
Increase decrease in accounts payable	344			344
Increase decrease in compensated absences			(9,347)	(9,347)
Total adjustments	920	(13,280)	125,780	113,420
Net cash provided (used) by operating activities	\$ (19,919)	\$ (74,790)	\$ 357,557	\$ 262,848



COMPLIANCE SECTION

Wilson & Company

Certified Public Accountants / A Professional Corporation

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable City Council
Washington City, Utah

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Washington City, Utah as of and for the year ended June 30, 2005, which collectively comprise Washington City, Utah's basic financial statements and have issued our report thereon dated December 7, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Washington City, Utah's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Washington City, Utah in a separate letter dated December 12, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Washington City, Utah's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our

Washington City, Utah
Page 2

audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we reported to management of Washington City, Utah in a separate letter dated December 12, 2005.

This report is intended solely for the information and use of the management of Washington City, Utah, and applicable federal and state funding and auditing agencies and is not intended to be and should not be used by anyone other than these specified parties.


WILSON & COMPANY
Certified Public Accountants

Cedar City, Utah
December 7, 2005

Wilson & Company

Certified Public Accountants / A Professional Corporation

WASHINGTON CITY, UTAH AUDITOR'S REPORT ON COMPLIANCE WITH STATE FISCAL LAWS FOR THE YEAR ENDED JUNE 30, 2005

The Honorable City Council
Washington City, Utah

We have audited the general purpose financial statements of Washington City, Utah, for the year ended June 30, 2005 and have issued our report thereon dated December 7, 2005. As part of our audit, we have audited the City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2005. The City received the following major State assistance programs from the State of Utah:

C Road Funds (Department of Transportation)

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the Compliance manual for Audits of Local Governments in Utah including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Liquor Law Enforcement
Other Compliance Requirements

Truth in Taxation
Impact Fees
B&C Road Funds
Uniform Building Code Standards

The management of Washington City, Utah, is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis evidence about the City's compliance with the requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Washington City, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of service allowed and unallowed; eligibility; matching, level of effort, or earmarking; reporting, and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.


WILSON & COMPANY

Certified Public Accountants

Cedar City, Utah
December 7, 2005

Wilson & Company

Certified Public Accountants / A Professional Corporation

December 12, 2005

Honorable Mayor and City Council
Washington City
Washington, Utah 84780

We have examined the financial statements of Washington City, Utah for the year ended June 30, 2005, and have issued our report thereon dated December 7, 2005. As part of our examination, we made a study and evaluation of the City's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the system of internal accounting control taken as a whole.

The management of Washington City is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related cost of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation was made for the limited purpose described in the first paragraph and would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of Washington City taken as a whole. However, our study and evaluation disclosed the following conditions that we believe require the city's further attention.

Budget Process

We noted in our exam that expenditures in the General Fund for city manager, human resources, judicial, animal welfare, cemetery, swimming pool, and transfers out exceeded the adopted budget.

We suggest the City closely monitor expenditures as the end of the year approaches and adjust the budget as allowed by law.

Deficit Fund Balances

We noted that the Irrigation Fund has negative surplus of \$17,021 and the General Plan Capital Project Fund has a negative surplus of \$46,441 in violation of the Utah Code.

The City should take steps to eliminate these deficits in the next fiscal year as required by law.

Fixed Asset Management System

We noted during our exam that the Coral Canyon Special Service District infrastructure assets were not included on the City's fixed asset management system.

We recommend that the City include all assets of the City and component units in the fixed asset system.

NSF Checks

We noted during the exam that there was a significant amount of NSF checks outstanding.

In order to limit the repeated occurrence of NSF checks, we suggest that the City put every customer on a cash only basis after the first occurrence of an NSF check on the customer's account. Unusual situations can be resolved on a case by case basis by the Treasurer.

Cash Management

We noted during the exam that the combined checking account had a significant overdraft balance at year end which resulted in a large bank charge. In addition, the combined money market account was earning zero interest at year end as a result of the City having been using the direct deposit option under the Check 21 rules. This situation resulted in the loss of interest income to the City.

We suggest that the City must closely monitor the cash accounts to assure that there be no overdraft balance subject to a charge by the bank and that the money market account is earning the highest interest available.

Voided Checks

We noted that no specific authorization is required to void an outstanding check.

We suggest that authorization be obtained from the budget officer prior to the voiding of any outstanding check.

Past Due SID Assessments

We noted during our exam that the position of the City towards past due SID assessments has been to wait until the property is sold and collect the outstanding balance based on the lien filed at the time of the assessment.

Since relying on the title companies to note the City's lien has not been reliable, we suggest that the City consider being more proactive and aggressive in the collection of past due SID assessments. As of year end, there was a past due balance of \$9,777 for SID 93-1.

Minutes

Our summary of the minutes of council meetings revealed that the minutes of several meetings were either not in the minute book or were not signed.

Since the minutes are the official record of the meeting of the council, we suggest that every effort be made to have the minutes of the previous meeting approved in the next council meeting.

Sewer Fund and Storm Drain Fund Net Operating Losses

Our exam revealed that the Sewer Fund and the Storm Drain Fund incurred net operating losses and that the loss in the Sewer Fund was significant.

We suggest that the City review the operations of both funds and take steps to eliminate the occurrence of net operating losses especially in the Sewer Fund. Net operating losses will eventually damage the integrity of the funds and could result in the violation of bond covenants and restrict the ability of the City to replace assets in the future.

Treasurer's Bond

Our exam revealed that the Treasurer's bond was not adequate in accordance with *Utah Code 51-7-15* and Rule 4 of the Utah Money Management Act.

We suggest that the City raise the Treasurer's bond to at least \$1,000,000 and consider raising it to \$1,500,000 in order to be in compliance with the law.

Payments to the Council and Mayor

We noted in our exam that the City pays a standard amount to the Council and Mayor without including these amounts in compensation or filing Form 1099 to reflect such payments.

We suggest that the City carefully review this practice in order to verify that such payments are in compliance with the Internal Revenue Code.

The above conditions were considered in determining the nature, timing, and extent of the audit tests applied in our examination of the City's June 30, 2005, financial statements.

Our comments are intended to be constructive in nature. The absence of positive or complimentary comments does not imply that the City operates in an inefficient or ineffective manner. We welcome the opportunity to discuss these conditions in further detail and express our appreciation to the staff for their assistance during the examination.

This report is intended solely for the use of management and the Utah State Auditor and should not be used for any other purpose.

Sincerely,


WILSON & COMPANY
Certified Public Accountants
Cedar City, Utah

Washington City

Terrill Clove
MAYOR

Roger Carter
CITY MANAGER

Sydney Wasden
CITY TREASURER



111 North 100 East
Washington, Utah 84780

Office: (435) 656-6300
FAX (435) 656-6370

December 28, 2005

Wilson and Company
P.O. Box 1110
Cedar City, Utah 84720

Dear Mr. Wilson;

We have received and carefully reviewed your analysis of the City's accounting system and your recommendations for improvement. The following are our comments on how we intend to comply.

Budget Process

We have reviewed these accounts and determined that the error occurred in the way the payroll was calculated in each of these departments (except transfers) at the end of the year. The Transfer error occurred due to an under-budget on the MBA transfer; we have identified the errors that occurred this year and will make sure that these accounts are compliant in the upcoming fiscal year.

Deficit Fund Balances

We have noted the negative surpluses in the irrigation fund and capital projects general plan fund. The irrigation fund is being re-structured this year and we will make sure that it is in compliance this upcoming fiscal year. The capital projects general plan fund is a closed fund and the negative surplus has been resolved at the time of this letter.

Fixed Asset Management System

Although we are still within the first few years of GASB compliance, the Coral Canyon Special Service District infrastructure assets have been added to the fixed asset management system.

NSF Checks

We are currently reviewing the policies regarding the acceptance of checks after a NSF check and will make what adjustments are necessary.

Cash Management

We have noted the overdraft charge as a result of transfer that did not occur in a timely manner and have resolved that issue; furthermore we have been working with Zion's Bank on the zero interest earnings for the money market account; we have been working with them for a number of months and are requesting back interest be applied to this account for that time period.

Voided Checks

Policy changes are being reviewed that would require the Budget Officer to sign off on all checks prior to voiding.

Past Due SID Assessments

We are reviewing our past due collection policy, on SID assessment, with legal counsel to determine our response to this issue.

Minutes

We have made significant progress in our minutes within the last year and expect that we will be in full compliance by end of current fiscal year.

Sewer Fund and Storm Drain Fund Net Operating Losses

We will be reviewing the Sewer fund operations and determining what steps need to be taken to eliminate any net losses in the future.

The Storm Drain Fund was a new fund this last fiscal year and revenues trailed expenses, we fully expect that this fund will be in full compliance this year.

Treasurer's Bond

We will ensure that this bond is increased to the appropriate level upon the hiring of our new city Treasurer.

Payment to the Council and Mayor

We will begin filing 1099's on the Mayor and Council pay by the end of tax year 2005.

Sincerely,



Roger Carter
City Manager

Washington City

Terrill Clove
MAYOR

Roger Carter
CITY MANAGER

Sydney Wasden
CITY TREASURER



111 North 100 East
Washington, Utah 84780

Office: (435) 656-6300
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February 8, 2006

State of Utah
Office of the State Auditor
MacRay A. Curtis, CPA
PO Box 142310
Salt Lake City, Utah 84114-2310

Dear Mr. Curtis:

I have reviewed the letter you sent regarding Washington City's non compliance of State laws regarding budgetary compliance. Below please find our plan of action to resolve these matters.

In regards to the deficit fund balance in the irrigation fund, Washington City has been reviewing the ability to install a pressurized irrigation system; this study resulted in the overage to this department. It is not anticipated that this will be a re-occurring cost and therefore, this fund is not anticipated to show any negative retained earnings in the future.

It was also noted in your letter that the capital project general plan fund had a deficit fund balance at year end June 30, 2005. A transfer from the general fund to the general plan capital project fund was made in September 2005 to correct the deficit.

If you have any additional questions, please feel free to contact me at (435)656-6310 or by e-mail at rcarter@washingtoncity.org.

Sincerely,


Roger Carter
City Manager

RC/kb